



Centralna banka
BOSNE I HERCEGOVINE
Централна банка
БОСНЕ И ХЕРЦЕГОВИНЕ



FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

This version of the financial statements is a translation from the original, which was prepared in the Bosnian/Croatian/Serbian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.



CONTENT

	Page
Financial Reporting Responsibility	1
Independent Auditor's Report	2 - 4
Statement of Financial Position	5
Statement of Profit or Loss	6
Statement of Comprehensive Income	7
Statement of Changes in Equity	8 - 9
Statement of Cash Flows	10 - 11
Notes to the Financial Statements	12 - 83
1 General information	
2 Basis of preparation	
3 Significant accounting policies	
4 Currency board arrangement	
5 Classification and fair value measurement of financial assets and financial liabilities	
6 Financial risk management	
7 Cash in foreign currencies	
8 Deposits with foreign banks	
9 Special Drawing Rights with the IMF	
10 Debt instruments at fair value through other comprehensive income	
11 Monetary gold	
12 Debt instruments at amortised cost	
13 Other assets	
14 Property and equipment	
15 Intangible assets	
16 Other investments	
17 Banknotes and coins in circulation	
18 Deposits from banks	
19 Deposits from the Government and other public institutions	
20 Provisions	
21 Other liabilities	
22 Net interest income	
23 Net fee and commission income	
24 Net realised (losses) / gains from sale of debt instruments at fair value through other comprehensive income	
25 Net realised gains from sale of monetary gold	
26 Net foreign exchange (losses)	
27 Net impairment on financial assets	
28 Other income	
29 Personnel expenses	
30 Administrative and other operating expenses	
31 Costs of production of banknotes and coins	
32 Allocation of annual net profit	
33 Equity	
34 Cash and cash equivalents	
35 Related party transactions	
36 Off-balance sheet deposits	
37 BH membership with the IMF	
38 Domestic payment and settlement systems	
39 Events after the reporting period	

FINANCIAL REPORTING RESPONSIBILITY

The Management of the Central Bank of Bosnia and Herzegovina is responsible for the financial statements which are prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and International Financial Reporting Standards.

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 the financial statements at any time. The Management has a general responsibility for taking steps which 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 selecting suitable accounting policies to conform to applicable International Financial Reporting Standards. The Governing Board considers the financial statements and oversees the Central Bank of Bosnia and Herzegovina financial reporting process.

In overseeing the financial reporting process, the Governing Board is assisted by the Audit Committee, which is consisted of three independent members. The Audit Committee reviews the annual financial statements, which are then considered and approved by the Governing Board and submitted to the Parliamentary Assembly of Bosnia and Herzegovina and the Presidency of Bosnia and Herzegovina.

These 2022 financial statements have been audited by the independent auditors of the Central Bank of Bosnia and Herzegovina ERNST & YOUNG d.o.o. Sarajevo and ERNST & YOUNG d.o.o. Ljubljana and their report is presented on pages 2 to 4. The independent auditors have been provided with full and unrestricted access to all information and communication needed to implement and discuss their audit procedures.

The accompanying financial statements set out on pages 5 to 83 are approved by the Governing Board on 30 March 2022.


Senad Softić, Ph.D.

**Chairman of the Governing Board
Governor**




Vesna Pačuka, MA

Head of Accounting and Finance Department



**Building a better
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Independent auditor's report

To the Governing Board of the Central Bank of Bosnia and Herzegovina

Opinion

We have audited the financial statements of Central Bank of Bosnia and Herzegovina (the Central Bank), which comprise the Statement of Financial Position as at 31 December 2022, and the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Central Bank as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Central Bank in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Bosnia and Herzegovina, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Responsibilities of the Management, the Governing Board and the Audit Committee for the Financial Statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS, and for such internal control as management determines is 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 is responsible for assessing the Central 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 management either intends to liquidate the Central Bank or to cease operations, or has no realistic alternative but to do so.

The Governing Board is responsible for overseeing the Central Bank's financial reporting process. The Audit Committee assists the Governing Board in overseeing the financial reporting process.

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Independent auditor's report (*continued*)

Auditor's 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 auditor's 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 ISAs 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 ISAs, we exercise professional judgment 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 Central Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of 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 Central 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 auditor's 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 auditor's report. However, future events or conditions may cause the Central 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.

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Independent auditor's report (continued)

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

We communicate with the Governing Board and the Audit Committee 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.

We also provide the Governing Board and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Danijela Mirković, procurator

Ernst & Young d.o.o. Sarajevo
Vrbanja 1 (SCC - Sarajevo City Center)
71000 Sarajevo
Bosnia and Herzegovina

Sarajevo, 30 March 2023



Tarik Alijagić, licensed auditor

Ernst & Young d.o.o. Sarajevo
Vrbanja 1 (SCC - Sarajevo City Center)
71000 Sarajevo
Bosnia and Herzegovina

Sarajevo, 30 March 2023

Janez Uranič, partner

Ernst & Young d.o.o. Ljubljana
Dunajska cesta 111
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Ljubljana, 30 March 2023

ERNST & YOUNG
Revizija, poslovno
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STATEMENT OF FINANCIAL POSITION

In thousands of KM	Note	31 December 2022	As at 31 December 2021
ASSETS			
Cash in foreign currencies	7	572,020	469,585
Deposits with foreign banks	8	8,273,200	3,945,097
Special Drawing Rights with the IMF	9, 37	149	1,881
Debt instruments at fair value through other comprehensive income	10	5,887,589	11,629,592
Monetary gold	11	160,040	301,987
Debt instruments at amortised cost	12	1,172,862	-
Other assets	13	19,280	16,927
Property and equipment	14	48,535	50,177
Intangible assets	15	844	983
Other investments	16	27,813	27,813
TOTAL ASSETS		16,162,332	16,444,042
LIABILITIES AND EQUITY			
LIABILITIES			
Banknotes and coins in circulation	17	7,436,097	6,923,818
Deposits from banks	18	7,217,387	7,219,617
Deposits from the Government and other public institutions	19	958,245	1,429,596
Provisions	20	897	1,406
Other liabilities	21	4,301	8,162
Total liabilities		15,616,927	15,582,599
EQUITY			
Initial capital		25,000	25,000
Reserves		520,405	836,443
Total equity	33	545,405	861,443
TOTAL LIABILITIES AND EQUITY		16,162,332	16,444,042

The accompanying notes on pages 12 to 83 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS

In thousands of KM	Note	For the year ended 31 December	
		2022	2021
Interest income		78,832	55,568
Interest expense		(39,026)	(45,420)
NET INTEREST INCOME	22	39,806	10,148
Fee and commission income		22,704	20,970
Fee and commission expenses		(791)	(813)
NET FEE AND COMMISSION INCOME	23	21,913	20,157
Net realised (losses) / gains from sale of debt instruments at fair value through other comprehensive income	24	(63,470)	4,949
Net realised gains from sale of monetary gold	25	60,014	-
Net foreign exchange (losses)	26	(42)	(486)
Net impairment on financial assets	27	(924)	(426)
Other income	28	850	1,402
OPERATING INCOME		58,147	35,744
Personnel expenses	29	(18,622)	(19,669)
Administrative and other operating expenses	30	(6,991)	(6,514)
Costs of production of banknotes and coins	31	(3,732)	(4,143)
Depreciation and amortisation charge	14, 15	(2,903)	(2,521)
OPERATING EXPENSES		(32,248)	(32,847)
NET PROFIT FOR THE YEAR	32	25,899	2,897

The accompanying notes on pages 12 to 83 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

In thousands of KM	Note	For the year ended 31 December	
		2022	2021
NET PROFIT FOR THE YEAR		25,899	2,897
Other comprehensive (loss) / income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Debt instruments at fair value through other comprehensive income			
Net change in fair value during the year	10	(365,150)	(129,592)
Net change in provisions for expected credit losses recognised in profit or loss during the year	6.1.1., 27	(239)	330
Reclassification to profit or loss from sale of debt instruments	24	63,470	(4,949)
		(301,919)	(134,211)
Monetary gold			
Net change in fair value during the year	11	19,996	10,426
Reclassification to profit or loss from sale of monetary gold	25	(60,014)	-
		(40,018)	10,426
Total other comprehensive (loss)		(341,937)	(123,785)
TOTAL COMPREHENSIVE (LOSS) FOR THE YEAR		(316,038)	(120,888)

The accompanying notes on pages 12 to 83 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

In thousands of KM	Initial capital	Fair value reserves for debt and equity instruments	Fair value reserves for monetary gold	Other reserves	General reserves (Retained earnings)	Total reserves	Total equity
Balance at 1 January 2022	25,000	158,914	98,129	31,300	548,100	836,443	861,443
Total comprehensive (loss) / income for the year	-	(301,919)	(40,018)	-	25,899	(316,038)	(316,038)
Net profit for the year (Note 32)	-	-	-	-	25,899	25,899	25,899
Other comprehensive (loss)	-	(301,919)	(40,018)	-	-	(341,937)	(341,937)
<i>Net unrealised negative changes in fair value for debt instruments</i>	-	(365,150)	-	-	-	(365,150)	(365,150)
<i>Net releases of provisions for expected credit losses for debt instruments recognised in profit or loss</i>	-	(239)	-	-	-	(239)	(239)
<i>Net realised negative changes in fair value for debt instruments sold transferred to profit or loss</i>	-	63,470	-	-	-	63,470	63,470
<i>Net unrealised positive changes in fair value for monetary gold</i>	-	-	19,996	-	-	19,996	19,996
<i>Net realised positive changes in fair value for monetary gold sold transferred to profit or loss</i>	-	-	(60,014)	-	-	(60,014)	(60,014)
Balance at 31 December 2022	25,000	(143,005)	58,111	31,300	573,999	520,405	545,405

The accompanying notes on pages 12 to 83 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

In thousands of KM	Initial capital	Fair value reserves for debt and equity instruments	Fair value reserves for monetary gold	Other reserves	General reserves (Retained earnings)	Total reserves	Total equity
Balance at 1 January 2021	25,000	293,125	87,703	31,300	545,203	957,331	982,331
Total comprehensive (loss) / income for the year	-	(134,211)	10,426	-	2,897	(120,888)	(120,888)
Net profit for the year (Note 32)	-	-	-	-	2,897	2,897	2,897
Other comprehensive (loss) / income	-	(134,211)	10,426	-	-	(123,785)	(123,785)
<i>Net unrealised negative changes in fair value for debt instruments</i>	-	(129,592)	-	-	-	(129,592)	(129,592)
<i>Net increase in provisions for expected credit losses for debt instruments recognised in profit or loss</i>	-	330	-	-	-	330	330
<i>Net realised positive changes in fair value for debt instruments sold transferred to profit or loss</i>	-	(4,949)	-	-	-	(4,949)	(4,949)
<i>Net unrealised positive changes in fair value for monetary gold</i>	-	-	10,426	-	-	10,426	10,426
Balance at 31 December 2021	25,000	158,914	98,129	31,300	548,100	836,443	861,443

The accompanying notes on pages 12 to 83 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

		For the year ended	
		31 December	
	Note	2022	2021
In thousands of KM			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		25,899	2,897
Adjusted for:			
Interest income	22	(78,832)	(55,568)
Interest expense	22	39,026	45,420
Net impairment on financial assets	27	924	426
Net realised losses / (gains) from sale of debt instruments at fair value through other comprehensive income	24	63,470	(4,949)
Net realised (gains) from sale of monetary gold	25	(60,014)	-
Net foreign exchange losses	26	42	486
Income from grants		(3)	(6)
Provisions, net (release) / increase	20, 29	(327)	171
Net losses / (gains) on disposal of property, equipment and intangible assets		3	(56)
Dividend income recognised in profit or loss	28	(721)	(1,297)
Depreciation and amortisation charge	14, 15	2,903	2,521
Net cash flows used in operating activities before changes in operating assets and liabilities		(7,630)	(9,955)
Changes in operating assets and liabilities			
(Increase) / decrease in term deposits with foreign banks		(566,900)	635,115
Decrease / (increase) in debt instruments at fair value through other comprehensive income		5,376,853	(2,157,869)
(Increase) in debt instruments at amortised cost		(1,173,087)	-
Decrease in monetary gold		161,943	-
(Increase) in other assets		(1,601)	(3,975)
Increase in banknotes and coins in circulation	17	512,279	751,361
(Decrease) / increase in deposits from banks		(1,336)	1,320,973
(Decrease) / increase in deposits from the Government and other public institutions		(471,351)	532,552
(Decrease) / increase in other liabilities		(3,885)	4,154
Payments from provisions	20	(182)	(179)
Interest received		75,142	53,070
Interest paid		(39,026)	(45,100)
Net cash from operating activities		3,861,219	1,080,147
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		-	57
Purchases of property, equipment and intangible assets	14, 15	(1,125)	(3,888)
Dividend received		721	1,297
Net cash used in investing activities		(404)	(2,534)

STATEMENT OF CASH FLOWS (CONTINUED)

In thousands of KM	Note	For the year ended 31 December	
		2022	2021
Net effects from impairment for expected credit losses on cash and cash equivalents		(894)	(184)
Net effects of exchange rates on cash and cash equivalents held		(14)	(391)
Net increase in cash and cash equivalents		3,859,907	1,077,038
Cash and cash equivalents at the beginning of the year		3,986,726	2,909,688
Cash and cash equivalents at the end of the year	34	7,846,633	3,986,726

The accompanying notes on pages 12 to 83 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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 establishment, organisation and operations have been defined by the Law on the Central Bank of Bosnia and Herzegovina, Official Gazette BH no: 1/97, 29/02, 08/03, 13/03, 14/03, 09/05, 76/06 and 32/07 (the “Law on the Central Bank”), adopted by the Parliamentary Assembly of Bosnia and Herzegovina, according to the General Framework Peace Agreement in Bosnia and Herzegovina (the Constitution).

The Central Bank has been established on 20 June 1997 and started its operations on 11 August 1997.

The Central Bank operates through its Head Office, three main units located in Sarajevo, Mostar and Banja Luka, and two branches, one in Brčko and other in Pale, the latter of which operates under the authorisation of the main unit in Banja Luka.

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 in accordance with the currency board rule. The currency board rule, required by the Law on the Central Bank, implies that the domestic currency must 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 $\text{KM } 1.95583 = \text{EUR } 1$, prescribed by the Law on the Central Bank.

The guaranteed convertibility of domestic currency and full coverage of monetary liabilities with convertible foreign currency reserves according to the currency board rule are the primary objectives of the Central Bank. 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 and are not, at any moment, aimed at profit maximization.

The Central Bank tasks as provided by the Law on the Central Bank include:

- determining, adopting and controlling the monetary policy of BH by issuing the domestic currency at the prescribed exchange rate with the full coverage in free convertible foreign currency reserves;
- holding and managing the official foreign currency reserves of the Central Bank in a safe and profitable manner;
- establishing and maintaining adequate payment and settlement systems;
- issuing provisions and guidelines for the performance of the Central Bank’s operations, in accordance with the Law on the Central Bank;
- coordinating the activities of the banking agencies, which are in charge of issuing banking licences and supervising banks in the entities;
- receiving deposits from BH institutions and public agencies, entities’ institutions and agencies and from domestic banks to fulfil their required reserve obligations;
- putting and withdrawing from circulation the domestic currency, including legal tender banknotes and coins, adhering strictly to the currency board rule;
- taking part in the operations of international organisations working on strengthening the financial and economic stability of the country;
- representing BH in international organisations regarding monetary policy issues.

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

1. GENERAL INFORMATION (CONTINUED)

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

According to the Law on the Central Bank, all powers that are not specifically reserved for the Governing Board are vested in the Governor. The Governor is the chairman of the Governing Board and the chairman of the Management.

The Management of the Central Bank, in addition to the Governor, consists of three vice governors who are appointed by the Governor with the approval of the Governing Board. The Management operationally manages the Central Bank's activities.

As at reporting dates, key management members of the Central Bank are:

The Governing Board

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

The unique attitude of the existing Governing Board until the appointment of the new Governing Board by the Presidency of Bosnia and Herzegovina is the undisturbed and continuous implementation of the legal role, main tasks and functions of the Central Bank, in accordance with the Law on the Central Bank and its internal regulations.

The Management

Senad Softić Ph.D.	Governor
Ernadina Bajrović M.Sc.	Vice Governor
Željko Marić Ph.D.	Vice Governor (from 16 August 2021)
Marko Vidaković M.Sc.	Vice Governor (from 1 March 2022)
Želimira Raspudić	Vice Governor (until 30 June 2021)
Milica Lakić Ph.D.	Vice Governor (until 11 August 2021)

The Audit Committee evaluates the overall adequacy and the effectiveness of the financial reporting process of the Central Bank, reviews financial statements prior to their consideration and approval by the Governing Board as well as oversees the process of the external audit of the annual financial statements and the election process of the Central Bank's independent auditors. The supervisory functions of the Audit Committee also include supervision of the risk management framework and the system of internal controls, supervision of the compliance function and supervision of the internal audit function.

As at reporting dates, the members of the Audit Committee are:

The Audit Committee

Elvir Čizmić Ph.D.	Chairman (from 1 January 2022), Member (until 31 August 2021)
Dijana Čavar Ph.D.	Member (from 1 January 2022)
Vasilj Žarković Ph.D.	Member (from 1 March 2022)
Mila Gadžić Ph.D.	Chairman (until 31 August 2021)
Radomir Repija	Member (until 31 August 2021)

2. BASIS OF PREPARATION

2.1. Statement of compliance

The financial statements of the Central Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) published by the International Accounting Standards Board (“IASB”).

These financial statements have been prepared using the going concern assumption.

More information on the circumstances in which the operations of the Central Bank have been performed in 2022 is disclosed in Note 3.13.

2.2. Basis of measurement

These 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:

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

2.3. Functional and presentational currency

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

2.4. Standards, interpretations and amendments to published standards that are effective in the current period

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Central Bank as at 1 January 2022:

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018 - 2020 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the previous version of the IASB’s Conceptual Framework for Financial Reporting to the current version issued in 2018 without significantly changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit an entity from deducting from the cost of property, plant and equipment any proceeds from the sale of items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous. The amendments clarify, the costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to the contract activities.
- **Annual Improvements 2018 - 2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The amendments had no impact on the financial statements of the Central Bank.

2. BASIS OF PREPARATION (CONTINUED)

2.4. Standards, interpretations and amendments to published standards that are effective in the current period (continued)

- **IFRS 16 Leases - COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment)**

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met.

The amendments had no impact on the financial statements of the Central Bank.

2.5. Standards and interpretations in issue not yet adopted

The following standards, amendments to existing standards and interpretations have been issued by the IASB, but are not effective for the year ended 31 December 2022 and have not been previously adopted by the Central Bank:

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2023 with earlier application permitted. The amendments narrow the scope of and provide further clarity on the initial recognition exception under IAS 12 and specify how entities should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

2. BASIS OF PREPARATION (CONTINUED)

2.5. Standards and interpretations in issue not yet adopted (continued)

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted, and will need to be applied retrospectively in accordance with IAS 8. The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments clarify the meaning of a right to defer settlement, the requirement for this right to exist at the end of the reporting period, that management intent does not affect current or non-current classification, that options by the counterparty that could result in settlement by the transfer of the entity's own equity instruments do not affect current or non-current classification. Also, the amendments specify that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

- **IFRS 16 Leases: Lease Liability in a Sale and Leaseback (amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions. In particular, the seller-lessee determines 'lease payments' or 'revised lease payments' in such a way that the seller-lessee would not recognise any amount of the gain or loss that relates to the right of use it retains. Applying these requirements does not prevent the seller-lessee from recognising, in profit or loss, any gain or loss relating to the partial or full termination of a lease. A seller-lessee applies the amendment retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, being the beginning of the annual reporting period in which an entity first applied IFRS 16. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

2.6. Comparative financial information

For the purpose of fair and objective presentation of financial information in 2022, comparative balances in certain notes have been changed to provide the comparability of financial information. These changes have no significant impact on the Central Bank's overall financial performance and financial position for the comparative period. All changes have been made for the purpose to improve disclosures and transparency of the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The Central Bank has been applying disclosed accounting policies consistently to all periods presented in these financial statements.

3.1. Financial assets and financial liabilities

3.1.1. Classification of financial assets and financial liabilities

The classification of financial assets and financial liabilities is determined at initial recognition.

A FINANCIAL ASSETS

The Central Bank can classify its financial assets in one of the following three categories at initial recognition:

- Financial assets subsequently measured at amortised cost,
- Financial assets subsequently measured at fair value through other comprehensive income and
- Financial assets subsequently measured at fair value through profit or loss.

As at reporting dates, the Central Bank did not have any financial assets classified at fair value through profit or loss.

The classification of financial asset is determined by:

- The Central Bank's business model for managing the financial assets and
- The contractual cash flow characteristics of the financial assets.

Business model

The business model reflects how the Central Bank manages financial assets in order to generate cash flows. As at reporting dates, the Central Bank manages its assets through following business models:

1. "Hold to collect contractual cash flows" model for financial assets that generate contractual cash flows during its lifetime and
2. "Hold to collect contractual cash flows and sell" model for financial assets that generate contractual cash flows during its lifetime and cash flows arising at the moment of sale.

Contractual cash flows from investing in debt instruments can be managed by both business models.

The Central Bank is obliged to reclassify all financial assets affected by the change in the business model, only if changing its business model for financial assets management.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial assets and financial liabilities (continued)

3.1.1. Classification of financial assets and financial liabilities (continued)

For financial assets that are managed through these models, the Central Bank assesses whether the contractual cash flows associated with the financial assets are solely payments of principal and interest on the principal amount outstanding. The assessment is made at a portfolio level because of its best reflection of the way the business is managed. For the purpose of assessment, “principal” is defined as fair value of the financial asset on initial recognition. “Interest” is defined as a consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time, and for other risks and costs related to the holding the financial asset.

In assessing whether the contractual cash flows are “solely payment of principal and interest”, the Central Bank considers the contractual cash flows of the instrument. Only financial assets that satisfy “solely payment of principal and interest” requirement can be classified into category of financial assets measured at amortised cost or financial assets measured at fair value through other comprehensive income.

Financial assets are measured at amortised cost if the assets meet the following conditions:

- they are held within the business model whose objective is to hold the financial assets and collect its contractual cash flows and
- by the contractual terms of the financial assets, cash flows arise on specified dates and are solely payments of principal and interest of the principal amount outstanding.

Financial assets are measured at fair value through other comprehensive income if the assets meet the following conditions:

- they are held within the business model whose objective is achieved by both collecting contractual cash flows and selling financial asset and
- by the contractual terms of the financial assets, cash flows arise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding.

B Financial liabilities

The Central Bank classifies all its financial liabilities as subsequently measured at amortised cost, with the exception of banknotes and coins in circulation which are measured at their nominal value (Note 3.6). Financial liabilities are not reclassified.

3.1.2. Initial recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised in the statement of financial position only when the Central Bank becomes one of the counterparties to which the contractual terms of the financial instrument are applied.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, except those classified at fair value through profit and loss, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, at initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised directly in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial assets and financial liabilities (continued)

3.1.2. Initial recognition of financial assets and financial liabilities (continued)

All financial assets are initially recognised at the settlement date which is the date that an asset is obtained from, or delivered to, the Central Bank.

3.1.3. Subsequent measurement of financial assets and financial liabilities

Subsequent measurement is determined by the selected classification of financial assets and financial liabilities.

The amortised cost of financial assets or financial liability is the amount at which financial assets or financial liability is measured on initial recognition decreased by the principal repayments, increased or decreased by the cumulative amortisation using the effective interest rate method on all differences between the initial amount and amount to maturity and, for financial assets, adjusted for any expected credit losses.

The gross carrying amount of financial assets is the amortised cost of financial assets before adjustment for impairment for expected credit losses.

The effective interest rate method is the method used in the calculation of the amortised cost (gross carrying amount) of financial assets or financial liability and allocation and recognition of interest income or expense in profit or loss over the certain period.

A Financial assets

Financial assets at amortised cost

After initial recognition, financial assets are measured at amortised cost using the effective interest rate method on the gross carrying amount of the assets. Effects of subsequent measurement of financial assets at amortised cost are recognised in profit or loss as interest income or interest expense arising from the effects of negative interest rates in the period they occurred.

As at reporting dates, the Central Bank's cash in foreign currencies, deposits with foreign banks, Special Drawing Rights with the IMF, debt instruments at amortised cost and other financial assets fall into category of financial assets at amortised cost.

Financial assets at fair value through other comprehensive income

After initial recognition, financial assets are measured at fair value through other comprehensive income using the effective interest rate method on the gross carrying amount of the assets and are adjusted to the fair value of the financial assets at each reporting date. For the period of holding, effects of subsequent measurement of financial assets at fair value through other comprehensive income are recognised as follows:

- Interest income or interest expense arising from the effects of negative interest rates are recognised in profit or loss in the period they occurred
- Fair value adjustments are recognised in other comprehensive income in the period they occurred.

When debt instruments at fair value through other comprehensive income are derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss, including previously recognised impairment gains or losses.

As at reporting dates, the Central Bank's debt instruments fall into the category of financial assets at fair value through other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial assets and financial liabilities (continued)

3.1.3. Subsequent measurement of financial assets and financial liabilities (continued)

Equity instruments

The Central Bank has made an irrevocable election to present in other comprehensive income subsequent changes in the fair value of equity instruments that are not held for trading due to their specific characteristics and absence of non-active market for trading. Other investments represent equity instruments which are initially recognised at cost that is considered to be their fair value due to impossibility to reliably determine their fair value.

As at reporting dates, the Central Bank's equity instruments at fair value through other comprehensive income are composed of Bank for International Settlements (BIS) and SWIFT shares (Note 16).

Impairment of financial assets

Impairment requirements of financial assets use more forward-looking information to recognise expected credit losses. Instruments within the scope of these requirements include financial assets measured at amortised cost i.e., deposits with foreign banks, debt instruments at amortised cost and Special Drawing Rights with the IMF as well as debt instruments measured at fair value through other comprehensive income. The Central Bank uses a simplified approach in calculation of expected credit losses for other receivables. Equity instruments measured at fair value through other comprehensive income are not subject of impairment.

The Central Bank recognises an impairment for these losses at each reporting date. The measurement of expected credit losses reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
- The time value of money and
- Reasonable and useful information that is available without additional cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 6.1. provides more information about how the expected credit losses are measured.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Financial assets and financial liabilities (continued)

3.1.3. Subsequent measurement of financial assets and financial liabilities (continued)

Impairment for expected credit losses is calculated and presented in the statement of financial position as follows:

Financial assets measured at amortised cost: Expected credit losses are calculated on the gross carrying amount of the assets and recorded as a deduction from the gross carrying amount of the assets.

Debt instruments at fair value through other comprehensive income: Expected credit losses are calculated on the gross carrying amount of the assets, but impairment is recognised in other comprehensive income as provisions for expected credit losses that do not reduce the carrying amount of the financial assets in the statement of financial position.

Impairment of financial assets is recognised in profit or loss regardless of classification of financial assets at each reporting date.

B Financial liabilities

Interest income or interest expense arising from financial liabilities measured at amortised cost are recognised in profit or loss using the effective interest rate method.

Fee and commission income arising from financial liabilities is recognised when service is provided.

Financial liabilities measured at amortised cost include banknotes and coins in circulation, deposits from banks, deposits from the Government and other public institutions and other financial liabilities.

3.1.4. Derecognition of financial assets and financial liabilities

The Central Bank derecognises financial assets only when the contractual rights to the cash flows from the assets expire or it transfers the financial assets and substantially all the risks and rewards of ownership of the assets to another entity.

A financial liability is derecognised when it is extinguished, discharged or expired.

3.2. Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position on a net basis, only where there is a legally enforceable right to offset the recognised amounts and when there is an intention to present or settle the transactions on the net basis.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions.

3.3. Cash and cash equivalents

For the purpose of reporting cash flows, cash and cash equivalents comprise the following categories: giro accounts, cash in foreign currencies, foreign currency demand deposits, foreign currency deposits with maturity up to three months or less from the date of acquisition and Special Drawing Rights with the IMF.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Monetary gold

Monetary gold is part of foreign currency reserves of the Central Bank and is classified as financial assets. Monetary gold is initially recognised at fair value, including transaction cost directly attributable to the acquisition of monetary gold.

After initial recognition, monetary gold is subsequently measured at fair value. Unrealized gains and losses arising from changes in fair value, referring to the price changes of monetary gold, are recognised in the fair value reserve account within other comprehensive income. Prior to the annual profit allocation, if unrealised losses exceed the balance of the fair value reserves for monetary gold, the Central Bank recognises the amount of negative balance in the profit or loss account which is then included in the profit available for distribution if the legally prescribed conditions for profit distributions are met.

On the sale of monetary gold, unrealized gains and losses from other comprehensive income are transferred to profit or loss.

The fair value of monetary gold is expressed in EUR, converted at the fixed rate of KM at the reporting date and is measured at the last quoted bid price for one ounce of gold as at reporting date.

3.5. Property, equipment and intangible assets

Property, equipment and intangible assets consist of assets obtained from the Central Bank's own funds and cash and non-cash grants. Property, equipment and intangible assets are stated at historical cost, less accumulated amortisation and accumulated impairment losses. Cost includes the purchase price and all costs directly related to bringing the asset into operating condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are recognised as expense as they incurred. Significant improvements and replacement of assets are capitalized.

Assets under construction are reported at their cost of construction including costs charged by third parties. Upon completion, all accumulated costs of the asset are transferred to the relevant property, equipment and intangible assets category to which corresponding depreciation and amortisation rates are subsequently applied.

Depreciation and amortisation of property, equipment and intangible assets are calculated on all assets, except land and assets in the course of construction, on a straight-line basis at prescribed rate designed to write off the cost of the assets over their estimated useful lives. The estimated depreciation and amortisation rates during 2022 and 2021 were as follows:

Property and equipment

Buildings	1.3% to 4.0%
Equipment	11.0% to 20.0%
Furniture	10.0% to 12.5%
Vehicles	15.5%

Intangible assets

Software	20.0%
Other intangible assets	20.0%

Gains and losses on disposal of property and equipment and intangible assets are recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.5. Property, equipment and intangible assets (continued)

Impairment of non-financial assets

The useful life of the property, equipment and intangible assets is reviewed and adjusted on an annual basis at minimum, if necessary, and it is applied prospectively.

The carrying amounts of the Central Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of other assets is the greater value at comparing its value in use in relation to fair value less cost to sell. 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortisation, as if no impairment loss had been recognised.

3.6. Banknotes and coins in circulation

The Central Bank is the only institution in BH authorised for issuing and withdrawing KM banknotes and coins, acting strictly under the currency board rule.

In accordance with the Law on the Central Bank, aggregate amounts of banknotes and coins in circulation is recorded as the Central Bank's financial liability in the statement of financial position. Banknotes and coins in circulation include only KM banknotes and coins outside of Central Bank's vaults.

When banknotes and coins are withdrawn from circulation, they are recognised as a liability as part of banknotes and coins in circulation, until the formal date of withdrawal. Any outstanding amount not withdrawn, after the formal due date, is recognised as income.

3.7. Deposits of depositors

Deposits of depositors include received deposits from banks and deposits from the Government and other public institutions. These deposits are the Central Bank's financial liabilities that are initially recognised at fair value and subsequently measured at amortised cost. Deposits from banks include domestic banks' deposits arising from reserve requirement policy of the Central Bank and other bank deposits. Deposits from the Government and other public institutions represent received deposits from BH institutions and other public BH agencies, and entities' institutions and agencies.

The Central Bank's role as a depository, banker, adviser and fiscal agent are prescribed under the Law on the Central Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.8. Provisions

Provisions are recognised when the Central Bank has a present legal or constructive obligation as a result of past events for which 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. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions are maintained at the level that the Central Bank's Management considers sufficient for absorption of incurred losses. The Management determines the sufficiency of provisions on the basis of insight into specific items, current economic circumstances, risk characteristics of certain transaction categories, as well as other relevant factors.

Provisions are released only for such expenditure in respect of which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

3.9. Income and expense recognition

Interest income and expenses

Interest income and expenses are recorded in profit or loss using the effective interest rate method. The "effective interest rate" is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial assets or
- The amortised cost of the financial liability.

When calculating the effective interest rate for financial instrument, the Central Bank estimates future cash flows considering all contractual terms of the financial instruments, but excluding the expected credit losses. The calculation includes all fees and amounts paid or received between the Central Bank and other party that are an integral part of the effective interest rate, transaction costs, and all other discounts and premiums.

Accrued interest on financial assets with negative interest rates is recognised in profit or loss as the effects of negative interest rates within the interest expense. As at reporting dates, the effects of negative interest rates on financial assets arise from deposits with foreign banks and debt instruments at fair value through other comprehensive income.

Accrued interest on financial liabilities at amortised cost with negative interest rate i.e., remuneration rate is recognised in profit or loss as the effects of negative deposit interest rates on financial liabilities within the interest income. As at reporting dates, the effects of negative interest rates arise from deposits from domestic banks due to the applied required reserve policy of the Central Bank.

Fee and commission income and expenses

Fee and commission income is earned from the services provided by the Central Bank and is recognised in profit or loss when the service is provided. The Central Bank calculates fee and commission income under determined tariffs for its services. Services provided by the Central Bank include services to domestic banks, depositors and other non-banking clients. They arise from payment system transactions, cash processing, conversion transactions and other services.

Fee and commission expense arises from received services related from Central Bank's foreign currency reserves management and is recognised in profit or loss when the service is received.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Income and expense recognition (continued)

Foreign currency transactions and foreign exchange differences

At initial recognition, foreign currency transactions are recorded into KM, by applying to the foreign currency amount the spot exchange rate between the KM and the foreign currency at the date of the transaction.

Monetary items denominated in foreign currencies are translated to KM by applying exchange rate from the Central Bank's exchange rate list at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated by applying the exchange rate at the date of transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.

Foreign exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated at initial recognition during the period or in previous reporting date, are recognised in profit or loss when they arise. Due to the currency board rule, there are no foreign exchange differences from monetary items denominated in EUR currency.

Middle exchange rates of most relevant currencies are provided below:

Middle exchange rate:	31 December 2022	31 December 2021
	KM	KM
EUR	1.95583	1.95583
CHF	1.986219	1.887320
GBP	2.205168	2.330311
USD	1.833705	1.725631
XDR	2.450479	2.420301

Dividend income

Dividend income from equity instruments is recognised in profit or loss when the Central Bank's right to receive dividend is established. Dividend income arises from BIS shares held by the Central Bank (Notes 16 and 28).

Employee benefits

Short-term employee benefits

In accordance with local regulations, on behalf of its employees, the Central Bank pays personal income tax and contributions for pension, disability, health and unemployment insurance, on and from salaries, which are calculated as per the set legal rates during the course of the year on the gross salary. The Central Bank pays those tax and contributions in the favour of the institutions of the Federation of Bosnia and Herzegovina (on federal and cantonal levels), Republic of Srpska and Brčko District.

In addition, meal allowances, transport allowances and vacation bonuses are paid in accordance with the domestic legislation requirements. These expenses are recognised in profit or loss in the period in which the expense is incurred.

Long-term employee benefits

According to local legal requirements, upon retirement employees of the Central Bank are entitled to receive severance pay, when provided legal conditions are met, such as the age or years of service, which in accordance with the Central Bank's internal Acts is based on six regular monthly salaries paid to the respective employee in the last six months. Such payments are treated as long-term employee benefits. The Central Bank engages the certified actuary for preparing an actuarial calculation using the projected unit credit method.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Income and expense recognition (continued)

Costs of production of banknotes and coins

Costs related to the production and design of banknotes and coins are initially recognised as deferred costs which are part of Central Bank's other assets and are subsequently amortised by their expense recognition through profit or loss over the period of five years.

Taxes

The Central Bank is obliged to pay Value Added Tax for all goods and services purchased. These payables are part of the Central Bank's administrative and other operating expenses. According to the Law on the Central Bank, the Central Bank is excluded from income tax payables.

3.10. Managed funds for and on behalf of third parties

The Central Bank also maintains certain accounts in foreign currencies related to agreements concluded between the governments in BH and its entities and foreign governments and financial organisations, as well as foreign currency accounts of the BH institutions and agencies, and of domestic banks, for which the Central Bank acts as an agent (Note 36).

3.11. Financial arrangements of Bosnia and Herzegovina with the International Monetary Fund

According to the financial arrangements concluded between BH, the Central Bank and the International Monetary Fund ("IMF"), the statement of financial position of the Central Bank includes the following items related to BH's membership with the IMF: Special Drawing Rights with the IMF which are part of foreign currency reserves of the Central Bank and are interest-bearing and the IMF No. 1 account and IMF No. 2 account that are part of Central Bank's financial liabilities. These accounts are also included in currency board compliance (Note 4).

Other assets and liabilities related to the IMF, belonging to or being the responsibility of BH, are recorded in a special Trust Fund within off-balance-sheet records. Central Bank has an obligation to keep proper records arising from transactions between BH and the IMF, but adhering strictly to the Law on the Central Bank and local legislation in BH that regulates foreign borrowing of BH (Note 37).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Significant accounting judgements and estimates

In preparing the Central Bank's financial statements in accordance with IFRSs, the Management applies judgments and make estimates that are evaluated continuously. In evaluation of significant judgments and estimates, the Management considers assumptions based on historical experience and expectations about future that are believed to be reasonable under the circumstances.

Significant judgements and estimates effect the reported amounts of assets and liabilities, as well as disclosure of the amounts of contingent assets and liabilities as at reporting date, and the corresponding amounts of revenues and expenses for the reporting period. Actual amounts could differ from these estimates. Changes in Central Bank's accounting policies are applied retrospectively when applicable in accordance with IFRSs. Changes in accounting estimates are recognised in the period in which the estimate is changed if the change affects only that period or in the period of change and future periods if the change affects both current and future periods. No changes have been made in applied accounting policies and accounting estimates in these financial statements.

These financial statements have been prepared based upon conditions existing at 31 December 2022. Future conditions may be different from those that resulted in the financial information disclosed in these financial statements. The Management continuously monitors the increased factors of uncertainty, including Russian-Ukrainian war, global inflation and the risk of another recession in the euro area, which may significantly influence the financial performances of the Central Bank in the future period.

Key assumptions and estimates relating to material statement of financial position items are presented below:

Business model

Note 3.1.1.: Determination of the business model within the financial assets are held and assessment of contractual terms of financial assets regarding the "Solely payment of principal and interest" requirement. These assessments determine the classification of financial assets.

Impairment of financial assets

The Central Bank calculates the expected credit losses for certain classes of financial assets measured at amortised cost and debt instruments measured at fair value through other comprehensive income. Note 6.1. describes assumptions made in the determination of the inputs into the expected credit loss measurement model, including the forward-looking view information that were used in the reporting periods.

Fair value of assets and liabilities

The Central Bank's business policy is to disclose fair value information on those financial assets and financial liabilities for which public market information is readily available or such value may be calculated by applying some alternative valuation techniques, and whose fair value is materially different from their recorded amounts. According to the Central Bank's management, amounts presented in the financial statements reflect the most reliable and useful estimate of fair value for financial reporting purposes, in accordance with IFRSs. For more information about fair value measurement of financial assets and financial liabilities see Note 5.

Depreciation and amortisation charge and rates applied

The calculation of depreciation and amortisation, as well as depreciation and amortisation rates are based on the assessed economic useful life of property, equipment and intangible assets. Once a year, the Central Bank assesses economic useful life based on current assumptions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Circumstances for performing the Central Bank's operations in 2022

The circumstances for conducting the Central Bank's operations have generated significant changes in the amounts and the structure of the financial position and the financial performance of the Central Bank as at reporting date regarding the financial information disclosed in the financial statements for 2021, making their comparability significantly limited.

In accordance with the Law on the Central Bank, foreign currency reserves are invested in the financial markets of euro area countries that are primarily influenced by the monetary policy of the European Central Bank ("ECB"). During 2022 there have been abrupt changes in the financial markets conditions of the euro area countries i.e., transition from a multiyear zone of negative interest rates and yields to the zone of positive interest rates and yields.

The ECB raised key interest rates on several occasions with the aim of normalizing monetary policy as a response to concerns about rising inflation, i.e., high energy and food prices caused by the Russian - Ukrainian war. The ECB's key interest rates were increased in the total amount of 250 basis points by the end of 2022, namely by 50 basis points in July, by 75 basis points in September and in November, and 50 basis points in December. Abrupt and significant increases of the ECB's key interest rates have consequently led to the interest rate increases on the Central Bank's foreign currency reserve funds that can be held with the euro area foreign banks, as well as significant and accelerating increases in market yields, but with simultaneously sharp falls of the euro area securities market prices in which the Central Bank can invest and which the Central Bank holds in its portfolio.

Consequently, the value of the Central Bank's official foreign currency reserves has been significantly changed as a result of significant market fluctuations in debt instruments classified at fair value through other comprehensive income. Declines in the fair value of debt instruments due to the sharp rise of market yields were absorbed by the sufficient level of net foreign assets value. The above mentioned circumstance on the financial markets was reflected in the temporary decline of net foreign assets value i.e., the Central Bank's equity as at the reporting date.

During 2022, the Central Bank has initiated certain changes regarding the foreign currency reserves investment policy aimed at adapting to new circumstances within its legally permitted framework. All activities of the Central Bank were managed taking into consideration that the financial instruments of the Central Bank are the instruments for currency board protection which are not held for the profit maximisation purposes, but to protect the coverage of monetary liabilities with net foreign currency reserves, strictly adhering the requirements of security, liquidity and only then return on investments.

During 2022, a significant restructuring of foreign currency reserves was carried out aimed at adjusting the investments of foreign exchange reserves to abrupt changes and to the transition to the zone of positive interest rates and yields, as follows:

- The modified duration of debt instruments at fair value through other comprehensive income was significantly shortened to reduce the interest rate risk exposure. Certain part of the Central Bank's debt instruments with significant fluctuations in the fair value was released through sales and thereby net loss was realised in the amount of KM 63,470 thousand.
- The Central Bank took advantage of the favourable financial market conditions and sold a total of 48,000 ounces of monetary gold measured at fair value. The sale of monetary gold generated a realised gain in the amount of KM 60,014 thousand.
- Cash inflows from performed sales as well as from maturities of debt instruments and sales of monetary gold were significantly reinvested in deposits with foreign banks with the aim of adjusting to conditions on the euro area financial markets. This led to an increase of foreign currency reserve funds invested in deposits with foreign banks. Accordingly, the conditions have been created for the fastest possible inclusion of the interest rates increase to the interest income of the Central Bank. As at 31 December 2022, all deposits with foreign banks are invested at positive interest rates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Circumstances for performing the Central Bank's operations in 2022 (continued)

- During the reporting period, the Central Bank has invested part of the foreign currency reserves in a portfolio of debt instruments classified at amortised cost.

Under conditions of an unstable investment environment, all activities undertaken regarding the investment of foreign currency reserves were carried out with the aim of stabilizing the value of foreign currency reserves in order to create the conditions for strengthening foreign exchange reserves by positive returns on investments and to reduce volatility as soon as possible.

For more information see notes:

Note	Title
4	Currency board arrangement
6	Financial risk management
8	Deposits with foreign banks
10	Debt instruments at fair value through other comprehensive income
11	Monetary gold
12	Debt instruments at amortised cost
22	Net interest income
24	Net realised (losses) / gains from sale of debt instruments at fair value through other comprehensive income
25	Net realised gains from sale of monetary gold
33	Equity

During 2022, the components of the Central Bank's monetary liabilities have been changing with a non-cyclical intensity, leading to volatile financial implications on the carrying amounts of the components of monetary liabilities i.e., its structure.

In the first part of 2022, domestic banks have been intensively withdrawing KM in cash as well as EUR banknotes from the Central Bank vaults, caused by introducing sanctions by the European Union and the USA to Russian-owned banks, affecting two commercial banks in BH. Sudden and intensive withdrawal of KM in cash and EUR banknotes has been successfully carried out through CBBH vaults, resulting in the stopping of abruptly withdrawal of KM cash. The Central Bank has had a sufficient amount of KM in cash in its vaults at any time, ensuring that the supply of domestic banks with the required amount of KM banknotes and coins was never questioned. Also, the Central Bank has undertaken all necessary activities in a timely manner for the smooth supply of domestic banks with EUR banknotes. The guaranteed convertibility of KM was not compromised at any time, and all legal obligations of the Central Bank regarding this matter were carried out without interruptions.

All domestic banks have properly fulfilled the required reserve in accordance with the legal regulations of the Central Bank. Observing by each decade during 2022, the amounts exceeding the required reserve of domestic banks were continuously higher than the amount of the average required reserves themselves at the overall system level.

During 2022, the Central Bank has continued to review the implementation of the previously introduced measures regarding required reserve policy framework innovation, being the only monetary policy instrument available in accordance with the legal framework. During 2022, the Central Bank decreased remuneration rate on the deposited funds of domestic banks, with the aim of mitigating the impact of the growth of the ECB's key interest rates, especially the ECB deposit facility rate, on the operations of banks in BH and the currency board stability.

The Central Bank has been executing continuously and without interruption its functions of the banker, the depository and the fiscal agent towards the depositors. The Central Bank's depositors were keeping funds in their accounts for most of the year. During 2022, Federation BH withdrew the rest amount of the transferred funds based on SDR allocation from the IMF from previous year. At the end of 2022, MFT BH, one of the most important depositors of the Central Bank, transferred part of its budgetary funds to off-balance foreign currency accounts managed by the Central Bank on its behalf.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Circumstances for performing the Central Bank's operations in 2022 (continued)

For more information see Notes:

Note	Title
4	Currency board arrangement
17	Banknotes and coins in circulation
18	Deposits from banks
19	Deposit from the Government and other public institutions
22	Net interest income
36	Off-balance sheet deposits

The operating expenses of the Central Bank are in approximately same amounts in the current and comparative reporting periods, even though the circumstances for performing the administrative operations have been significantly changed in the direction of increased inflationary pressures during 2022.

For more information see Notes:

Note	Title
29	Personnel expenses
30	Administrative and other operating expenses

3. CURRENCY BOARD ARRANGEMENT

The currency board is an arrangement with a fixed foreign currency exchange rate which is tied to a stable foreign currency, so-called reserve currency, where the total amount of domestic currency can be freely converted to reserve currency at any time. Every issued KM has full coverage in foreign currency to which it is tied at the fixed EUR foreign currency exchange rate. The Law on the Central Bank defines the rule “currency board” for issuing KM, according to which the Central Bank is obliged to ensure that total amount of its monetary liabilities never exceed the equivalent amount (expressed in KM) of its foreign currency reserves.

Details of compliance with that rule are as follows:

In thousands of KM	31 December 2022	31 December 2021
Official foreign currency reserves		
Cash in foreign currencies	572,020	469,585
Deposits with foreign banks	8,273,200	3,945,097
Special Drawing Rights with the IMF	149	1,881
Debt instruments	7,060,451	11,629,592
Monetary gold	160,040	301,987
TOTAL	16,065,860	16,348,142
Liabilities to non-residents	2,583	2,331
Net foreign currency reserves (Official foreign currency reserves less liabilities to non-residents)	16,063,277	16,345,811
Monetary liabilities		
Banknotes and coins in circulation	7,436,097	6,923,818
Deposits from banks	7,217,387	7,219,617
Deposits from the Government and other public institutions	958,245	1,429,596
TOTAL	15,611,729	15,573,031
NET FOREIGN ASSETS (Net foreign currency reserves less monetary liabilities)	451,548	772,780

Disclosed amounts of all components of the currency board represent their carrying amounts as at reporting dates.

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. It represents the part of official foreign currency reserves which can be used only for purposes and needs determined by the Law on the Central Bank.

Net foreign assets are the amounts that guarantee the stability of domestic currency, respectively monetary stability and absorb potential financial risks arising from official currency reserves management. As at 31 December 2022, the financial balance of net foreign assets amounts to KM 451,548 thousand and the stability of domestic currency is completely provided (31 December 2021: KM 772,780 thousand).

During 2022, fluctuations in market prices of debt instruments at fair value through other comprehensive income and monetary gold dominantly affected changes of the amount of net foreign assets due to the mandatory subsequent measurement of these foreign currency reserve components at their fair value. The abrupt falls of the securities market prices in the euro area financial markets led to decrease of net foreign assets as at reporting dates.

4. CURRENCY BOARD ARRANGEMENT (CONTINUED)

More information on these changes is disclosed in Notes 10 and 11. More information on financial risks to which the Central Bank has been exposed in foreign currency reserves management is disclosed in Note 6.

As at reporting dates, the Central Bank's adequate capitalisation level has ensured implementation of its functions prescribed by the Law on Central Bank. For more information see Note 33.

5. CLASSIFICATION AND FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Fair value is the price that would be received by selling 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 considers the characteristics of the asset or liability which market participants would consider 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.

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

5.1. Financial assets measured at fair value

The following table analyses financial assets measured at fair value at each reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amounts are based on the values recognised in the statement of financial position.

In thousands of KM

	31 December 2022			
	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Financial assets measured at fair value through other comprehensive income</i>				
Debt instruments	5,887,589	-	-	5,887,589
Monetary gold	160,040	-	-	160,040
TOTAL	6,047,629	-	-	6,047,629

In thousands of KM

	31 December 2021			
	Level 1	Level 2	Level 3	Total
Financial assets				
<i>Financial assets measured at fair value through other comprehensive income</i>				
Debt instruments	11,629,592	-	-	11,629,592
Monetary gold	301,987	-	-	301,987
TOTAL	11,931,579	-	-	11,931,579

Financial assets are measured at fair value in statement of financial position using the last quoted bid prices in an active market, taken from official services, which correspond to Level 1 hierarchy as at reporting dates. Market prices from the official service Bloomberg are used for fair value measurement of debt instruments. Market prices from the official service Reuters are used for fair value measurement of monetary gold.

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

5.2. Financial assets and financial liabilities not measured at fair value

In thousands of KM

	31 December 2022	
	Carrying amount	Fair value
Financial assets		
<i>Financial assets measured at amortised cost:</i>		
Cash in foreign currencies	572,020	572,020
Deposits with foreign banks	8,273,200	8,273,200
Special Drawing Rights with the IMF	149	149
Debt instruments at amortised cost	1,172,862	1,018,598
Other financial assets	4,282	4,282
	<u>10,022,513</u>	<u>9,868,249</u>
<i>Financial assets measured at fair value through other comprehensive income - cost choice:</i>		
Other investments	27,813	27,813
	<u>27,813</u>	<u>27,813</u>
Total	<u>10,050,326</u>	<u>9,896,062</u>
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Banknotes and coins in circulation	7,436,097	7,436,097
Deposits from banks	7,217,387	7,217,387
Deposits from the Government and other public institutions	958,245	958,245
Other financial liabilities	4,023	4,023
Total	<u>15,615,752</u>	<u>15,615,752</u>

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

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

In thousands of KM

	Carrying amount	31 December 2021 Fair value
Financial assets		
<i>Financial assets measured at amortised cost:</i>		
Cash in foreign currencies	469,585	469,585
Deposits with foreign banks	3,945,097	3,945,097
Special Drawing Rights with the IMF	1,881	1,881
Other financial assets	3,349	3,349
	<u>4,419,912</u>	<u>4,419,912</u>
<i>Financial assets at measured at fair value through other comprehensive income - cost choice:</i>		
Other investments	27,813	27,813
	<u>27,813</u>	<u>27,813</u>
Total	<u>4,447,725</u>	<u>4,447,725</u>
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Banknotes and coins in circulation	6,923,818	6,923,818
Deposits from banks	7,219,617	7,219,617
Deposits from the Government and other public institutions	1,429,596	1,429,596
Other financial liabilities	8,023	8,023
Total	<u>15,581,054</u>	<u>15,581,054</u>

For financial assets and financial liabilities not measured at fair value, fair value of these components is considered for the purpose of disclosing information on their estimated fair value. The Management considers that carrying amounts of financial assets at amortised cost, other investments and financial liabilities at amortised cost, except for debt instruments at amortised cost, represent reasonable estimation of their fair value as at reporting dates. The above mentioned estimate is made considering the specific position of the Central Bank as the supreme monetary authority operating under currency board arrangement, as well as dominant short-term nature of these components. For more information see Notes 6.3. and 8.

As at reporting dates, financial assets and financial liabilities not measured at fair value are included in Level 2 of fair value measurement, except for debt instruments at amortised cost which are included in Level 1 because their fair value is determined with the same measurement technique used for debt instruments measured at fair value through other comprehensive income.

6. FINANCIAL RISK MANAGEMENT

Financial assets which represent the Central Bank's exposure to financial risks (credit risk, market risks and liquidity risk) are:

- Cash in foreign currencies,
- Deposits with foreign banks (central banks, commercial banks and BIS),
- Special Drawing Rights with the IMF,
- Debt instruments at fair value through other comprehensive income,
- Monetary gold,
- Debt instruments at amortised cost,
- Other financial assets (domestic banks' receivables, employees' loans and other receivables) and
- Other investments.

Interest rates and market yields on the government bonds of the euro area countries have been increased in 2022 comparing to their values in previous years. The ECB contributed the most to this by raising key interest rates in the euro area, which began in the second half of the year. The ECB deposit facility rate, which was set to (0.50%) during the 2021 and first half of 2022, has been increased on four occasions in second half of 2022, as follows: at the end of July (to 0.00%), at early September (to 0.75%), at early November (to 1.50%) and finally, at late December 2022 (to 2.00%). The above mentioned interest rate increasing contributed to the increase of interest rates and market yields of Eurobonds in 2022.

A strong increase in market yields has decreased the fair value of debt instruments in the Central Bank's portfolio, which is a challenge for the stability of currency board arrangement. In order to preserve the stability of the currency board, the Central Bank significantly shortened the modified duration of the portfolio of debt instruments and exposure to interest rate risk. Certain adjustments have been made to the credit risk limitations and foreign currency reserves have been restructured by increasing the share of deposits with foreign banks and reducing the share of debt instruments in the portfolio. Consequently, there was a certain increase in the expected credit losses due to the increase in credit risk.

6.1. 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 in which, in accordance with the Central Bank's regulations, foreign currency reserves are held or invested. The management of this risk is performed through:

- limiting the scope of financial instruments,
- limiting counterparties and issuers to those with acceptable composite credit rating,
- defining concentration limits for investments with an individual counterparty,
- limiting the maximum amount to be invested into individual types of financial instruments,
- limiting the size of the issue of individual securities and
- limiting maturities.

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 36 and 37).

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

Expected credit loss measurement

Financial assets for which the Central Bank calculates the expected credit losses includes:

- Deposits with foreign banks,
- Special Drawing Rights with IMF,
- Debt instruments at fair value through other comprehensive income,
- Debt instruments at amortised cost and
- Other financial assets (domestic banks' receivables, employees' loans and other receivables).

The basic criteria for defining the limit of exposure to credit risk is the composite credit rating. Composite credit rating is the average of current ratings assigned to a certain entity by at least two out of three credit rating agencies (Standard and Poor's, Fitch ratings or Moody's).

Financial assets which have the composite credit rating AA minus (AA-) or higher, the Central Bank treats as low credit risk exposure.

Financial assets which have the composite credit rating from BBB minus (BBB-) to A plus (A+), the Central Bank treats as medium credit risk exposure.

Financial assets which have the composite credit rating below BBB minus (BBB-), the Central Bank treats as high credit risk exposure.

In the absence of credit rating, the Central Bank estimates the borrower's capacity to properly repay his contractual cash obligations.

Model for impairment of financial assets defines three stages based on the credit risk level at initial recognition and changes in the credit risk level after initial recognition as summarized below:

1. Stage 1 of exposure distribution – Financial assets which are treated as the low or medium credit risk exposure are allocated to Stage 1 at initial recognition. In accordance with internal Central Bank's regulations, investments of foreign currency reserves are not allowed to the high credit risk exposure. Each investment of foreign currency reserves at initial recognition is allocated to Stage 1 of exposure distribution.
2. Stage 2 of exposure distribution – If a significant increase in credit risk since initial recognition is identified, financial assets which were allocated to Stage 1 will be transferred to Stage 2.
3. Stage 3 of exposure distribution – The criteria for movement into Stage 3 is assigning the default status to financial assets.

The calculation of expected credit losses is measured on a 12-month basis or a lifetime basis, depending on financial asset's composite credit rating level, if the significant increase in credit risk has occurred from the moment of financial assets' initial recognition and depending on if the financial asset is credit-impaired.

For financial assets allocated in Stage 1, the expected credit losses are measured on a 12-month basis, while for financial assets allocated in Stage 2 or Stage 3 the expected credit losses are measured on a lifetime basis.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

Significant increase in credit risk

Significant increase in credit risk, as criteria for transfer of exposure into Stage 2, represents:

- The decrease in composite credit rating for more than two notches in relation to initial recognition date, excluding the financial assets which even after the decrease in composite credit rating is treated as the low credit risk exposure at reporting date or
- The decrease in composite credit rating of financial assets below investment level of composite credit rating, i.e., below the BBB minus (BBB-) rating.

Financial assets cannot be allocated from Stage 1 to Stage 2 if the Central Bank considers that the debtor, which does not have credit rating assigned, has high capacity to settle all matured contractual obligations. Financial assets cannot be allocated to Stage 2 if, even after the decrease in the level of composite credit rating, the financial assets have rating AA minus (AA-) or higher, considering that it is treated as low credit risk exposure.

If financial instrument is consisted of multiple tranches that were initially recognised in different periods, and which in different periods had different composite credit ratings, by using the conservative approach, the Central Bank will take as relevant the calculated increase in credit risk from the highest notch.

If the change in credit risk rating occurred due to the change in certain credit rating agency methodology and the significant increase in credit risk did not occur related to initially estimated risks, the exposures will not be classified into Stage 2.

The Central Bank, based on its analysis, can determine the allocation of every individual financial asset into Stage 2 or Stage 3. If the causes that led to the transfer of financial asset in Stage 2 have been removed, the exposure can be reverted to Stage 1, but at least 90 days after removal of the cause.

In addition to the criteria mentioned above, stage classification can be performed based on assumption that the significant increase in credit risk has occurred if the payment is delayed for 30 days or more, where the financial assets will be classified to Stage 2 (underperforming) if the payment is delayed for 30 to 89 days. Financial assets will be classified to the Stage 3 (nonperforming) if payment is delayed for 90 days or more.

Definition of default

Default criteria are objective evidences of impairment, especially:

- Significant financial difficulties of securities' issuers,
- Breach of contractual obligations in terms of delinquency on principal and interest,
- Any restructuring or modification of the existing terms of servicing obligations arising from financial instrument debt for reasons related to financial difficulties of the issuer,
- Probability of bankruptcy and/or liquidation or other form of financial reorganization and/or
- Disappearance of an active trading market.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

Expected credit loss calculation

Expected credit losses are calculated as the product of three variables: The Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), defined as follows:

- **Probability of Default (PD)** is an estimate of the probability that another counterparty will not be able to meet its debt obligations. In the reporting periods, the same PD calculation method was used, in accordance with the Central Bank's methodology for expected credit losses calculation which was introduced on 1 January 2019. For the impairment calculation, in accordance with best practices in other central banks in region and European Union, which are obliged to comply with IFRS, the Central Bank, as a parameter of the probability of default, uses the estimates based on data from transition matrices which are published by credit rating agencies and expert judgement in the form of fixed percentages of probability of default. For probability of default calculation, the estimates are based on transition matrices for corporations on a global level which contain data on one-year transition average rate of long-term credit rating level in status "D" i.e., default or status "SD", i.e., selective default. Based on data mentioned above, the probability of default estimates is calculated for exposures to foreign commercial banks and foreign countries, respectively foreign central banks and governments, for which it is possible to calculate composite credit rating. For probability of default estimates of exposures to foreign countries, respectively foreign central banks and governments, the first non-zero data on one-year transition rate of sovereign ratings is taken into consideration in status "D" i.e., default or status "SD" i.e., selective default from transition matrices for sovereign rating. For exposures for which the composite credit rating cannot be calculated, expert judgements in terms of fixed percentages are used, respectively the simplified approach in accordance with the current situation analysis and former experience.
- **Loss Given Default (LGD)** is an estimate of the percentage of exposure to the issuer/entity which cannot be collected if a default event occurs. For loss given default, the Central Bank uses constant value of one-year LGD, 45 per cent (45%), in accordance with the article 161. of the Regulation No 575/2013 of the European Parliament and of the Council of 26 June 2013 (Capital Requirements Regulations i.e., CRR).
- **Exposure at Default (EAD)** represents the carrying amount of the financial assets, i.e., the carrying amount at the initial recognition date/at the reporting date.

For impairment, the Central Bank uses individual and collective approach.

Considering the portfolio structure and classification, the Central Bank will consider every exposure for which the objective impairment is determined, respectively the default is determined, as individually significant exposure and will apply the individual estimation approach. For an individual approach to impairment assessment, three different scenarios are used. It is not necessary to determine each possible scenario for the expected credit losses measurement, but it needs to be taken into the consideration the risk or likelihood of a credit loss occurring in a way that reflects the probability of a credit loss and the probability that there will be no credit loss, even when the probability of credit loss is very low.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

Impairment amount for exposures that are subject of the individual evaluation approach is calculated as a difference between the financial asset carrying amount and probability weighted present value of the estimated cash flows, discounted with the effective interest rate, where the expected credit losses are discounted at the reporting date, not at the date of expected default or any other date.

For the purpose of determining a significant increase in credit risk and the recognition of expected credit losses on a collective basis, financial instruments may be grouped on the basis of common credit risk characteristics to facilitate the timely analysis of significant increase in credit risk determination.

Impairment calculation on a collective basis for financial instruments allocated in Stage 1 is carried out on a 12-month basis, while for exposures allocated in Stage 2, the lifetime credit loss is calculated.

Forward-looking information incorporation

The purpose of the impairment is to recognise expected credit losses on a lifetime basis for financial assets that had a significant increase in credit risk compared to initially estimated risks, whether the estimation is on individual or collective basis, considering all reasonable and substantiated information including those related to the future.

In accordance with the above, incorporation of forward-looking information in expected credit losses calculation is done by adjusting the probability of default.

Given that the Central Bank in its portfolio has financial instruments of issuers that are different by structure as well as by geographical distribution, in relation to incorporating forward looking information in expected credit losses calculation, the Central Bank relies on predicting changes in credit ratings for individual financial instruments, respectively issuers.

Predictions of credit rating movement directions on calculated probability of default of three biggest credit rating agencies: positive, stable or negative outlook, is incorporated in probability of default by the principle of equal probabilities.

6.1.1. Credit risk exposure

The following table shows the reconciliation from the opening to the closing balance for the impairment as well as the provisions for expected credit losses for financial assets at the reporting dates:

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.1. Credit risk exposure (continued)

In thousands of KM

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1. Deposits with foreign banks								
As at 1 January	913	-	-	913	807	-	-	807
Increases in expected credit losses	10,427	-	-	10,427	4,734	-	-	4,734
Releases of expected credit losses	(335)	-	-	(335)	(179)	-	-	(179)
Releases due to derecognition of term deposits	(9,155)	-	-	(9,155)	(4,449)	-	-	(4,449)
As at 31 December	1,850	-	-	1,850	913	-	-	913
2. Special Drawing Rights with the IMF								
As at 1 January	-	-	-	-	-	-	-	-
Increases in expected credit losses	-	-	-	-	-	-	-	-
Releases of expected credit losses	-	-	-	-	-	-	-	-
As at 31 December	-	-	-	-	-	-	-	-
3. Debt instruments at fair value through other comprehensive income								
As at 1 January	1,786	-	-	1,786	1,598	-	-	1,598
Increases in expected credit losses	686	-	-	686	1,130	-	-	1,130
Releases of expected credit losses	(121)	-	-	(121)	(150)	-	-	(150)
Releases due to debt instruments matured	(804)	-	-	(804)	(650)	-	-	(650)
<i>Net (release) / increase during the year</i>	<i>(239)</i>	-	-	<i>(239)</i>	<i>330</i>	-	-	<i>330</i>
Releases due to debt instruments sold	(637)			(637)	(142)			(142)
As at 31 December	910	-	-	910	1,786	-	-	1,786

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.1. Credit risk exposure (continued)

In thousands of KM

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
4. Debt instruments at amortised cost								
As at 1 January	-	-	-	-	-	-	-	-
Increases in expected credit losses	234	-	-	234	-	-	-	-
Releases of expected credit losses	(9)	-	-	(9)	-	-	-	-
As at 31 December	225	-	-	225	-	-	-	-
5. Other financial assets								
As at 1 January	6	-	602	608	5	-	613	618
Increases in expected credit losses	9	-	-	9	8	-	2	10
Releases of expected credit losses	(9)	-	(1)	(10)	(7)	-	(13)	(20)
As at 31 December	6	-	601	607	6	-	602	608
Total opening balance at 1 January	2,705	-	602	3,307	2,410	-	613	3,023
Net increase / (release) in expected credit losses	286	-	(1)	285	295	-	(11)	284
Total closing balance at 31 December	2,991	-	601	3,592	2,705	-	602	3,307

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.2. Credit risk concentration

a) Maximum exposure to credit risk - financial instruments 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 recognised:

In thousands of KM	31 December 2022				31 December 2021			
Classes of financial instruments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash in foreign currencies								
Gross carrying amount	572,020	-	-	572,020	469,585	-	-	469,585
Impairment	-	-	-	-	-	-	-	-
Carrying amount	572,020	-	-	572,020	469,585	-	-	469,585
Deposits with foreign banks								
Gross carrying amount	8,275,050	-	-	8,275,050	3,946,010	-	-	3,946,010
Impairment	(1,850)	-	-	(1,850)	(913)	-	-	(913)
Carrying amount	8,273,200	-	-	8,273,200	3,945,097	-	-	3,945,097
Special Drawing Rights with the IMF								
Gross carrying amount	149	-	-	149	1,881	-	-	1,881
Impairment	-	-	-	-	-	-	-	-
Carrying amount	149	-	-	149	1,881	-	-	1,881
Debt instruments at fair value through other comprehensive income								
Gross carrying amount	5,887,589	-	-	5,887,589	11,629,592	-	-	11,629,592
Provisions for expected credit losses (recognised in other comprehensive income)	910	-	-	910	1,786	-	-	1,786
Gross carrying amount	5,887,589	-	-	5,887,589	11,629,592	-	-	11,629,592

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Credit risk (continued)

6.1.2. Credit risk concentration (continued)

In thousands of KM Classes of financial instruments	31 December 2022				31 December 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Debt instruments at amortised cost								
Gross carrying amount	1,173,087	-	-	1,173,087	-	-	-	-
Impairment	(225)	-	-	(225)	-	-	-	-
Carrying amount	1,172,862	-	-	1,172,862	-	-	-	-
Other financial assets								
Gross carrying amount	4,288	-	601	4,889	3,355	-	602	3,957
Impairment	(6)	-	(601)	(607)	(6)	-	(602)	(608)
Carrying amount	4,282	-	-	4,282	3,349	-	-	3,349

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.2. Credit risk concentration (continued)

b) Maximum exposure to credit risk - financial assets not subject to impairment

In thousands of KM	31 December 2022	31 December 2021
Carrying amounts		
Monetary gold	160,040	301,987
Other investments	27,813	27,813
TOTAL	187,853	329,800

The Central Bank does not hold any collateral or other credit enhancements for the credit risk coverage. As at 31 December 2022 the Central Bank does not have any assets that are past due and does have impaired assets in the amount of KM 601 thousand (31 December 2021: The Central Bank did not have any assets that are past due and had impaired assets in the amount of KM 602 thousand).

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.2. Credit risk concentration (continued)

Concentration per credit rating

The tables below present an analysis of the Central Bank's concentration per composite credit rating to the counterparty for its financial assets as at reporting dates:

In thousands of KM

31 December 2022

Credit rating	Cash in foreign currencies	Deposits with foreign banks	Special Drawing Rights with the IMF	Debt instruments at fair value through other comprehensive income	Monetary gold	Debt instruments at amortised cost	Other financial assets	Other investments	Total
AAA	-	3,562,708	-	2,142,560	-	141,023	-	-	5,846,291
AA+	-	-	-	693,016	-	282,171	-	-	975,187
AA	-	450,701	-	1,244,391	-	219,864	-	-	1,914,956
AA-	-	-	-	524,373	-	145,540	-	-	669,913
A+	-	1,678,882	-	-	-	-	-	-	1,678,882
A	-	2,575,495	-	-	-	41,776	-	-	2,617,271
A-	-	3,481	-	795,710	-	190,370	-	-	989,561
II ¹	-	3,783	149	-	160,040	-	-	27,813	191,785
BBB+	-	-	-	-	-	-	-	-	-
BBB	-	-	-	487,539	-	152,343	-	-	639,882
BBB-	-	-	-	-	-	-	-	-	-
Unrated	572,020	-	-	-	-	-	4,889	-	576,909
Total	572,020	8,275,050	149	5,887,589	160,040	1,173,087	4,889	27,813	16,100,637
Impairment	-	(1,850)	-	-	-	(225)	(607)	-	(2,682)
TOTAL	572,020	8,273,200	149	5,887,589²	160,040	1,172,862	4,282	27,813	16,097,955

¹ International institutions

² Provisions for expected credit losses do not reduce the gross carrying amount of debt instruments at fair value through other comprehensive income

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.2. Credit risk concentration (continued)

In thousands of KM

31 December 2021

Credit rating	Cash in foreign currencies	Deposits with foreign banks	Special Drawing Rights with the IMF	Debt instruments at fair value through other comprehensive income	Monetary gold	Other financial assets	Other investments	Total
AAA	-	1,622,277	-	2,523,051	-	-	-	4,145,328
AA+	-	-	-	1,349,129	-	-	-	1,349,129
AA	-	78,200	-	3,986,839	-	-	-	4,065,039
AA-	-	-	-	1,672,536	-	-	-	1,672,536
A+	-	488,958	-	-	-	-	-	488,958
A	-	1,653,649	-	-	-	-	-	1,653,649
A-	-	102,166	-	1,428,865	-	-	-	1,531,031
II ³	-	760	1,881	-	301,987	-	27,813	332,441
BBB+	-	-	-	-	-	-	-	-
BBB	-	-	-	669,172	-	-	-	669,172
BBB-	-	-	-	-	-	-	-	-
Unrated	469,585	-	-	-	-	3,957	-	473,542
Total	469,585	3,946,010	1,881	11,629,592	301,987	3,957	27,813	16,380,825
Impairment	-	(913)	-	-	-	(608)	-	(1,521)
TOTAL	469,585	3,945,097	1,881	11,629,592⁴	301,987	3,349	27,813	16,379,304

³ International institutions

⁴ Provisions for expected credit losses do not reduce the gross carrying amount of debt instruments at fair value through other comprehensive income

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.2. Credit risk concentration (continued)

Geographical concentration of risks of financial assets with credit risk exposure

The following tables provide the information on the Central Bank's main credit risk exposure at their gross carrying amounts, categorized by geographical region as at reporting dates. For the purposes of this disclosure, the Central Bank has allocated exposures to regions based on the country of domicile of its counterparties:

31 December 2022

In thousands of KM	EU countries	Non-EU member countries	Bosnia and Herzegovina	Total
Cash in foreign currencies	-	-	572,020	572,020
Deposits with foreign banks	5,510,640	2,764,410	-	8,275,050
Special Drawing Rights with the IMF	-	149	-	149
Debt instruments at fair value through other comprehensive income	5,887,589	-	-	5,887,589
Monetary gold	-	160,040	-	160,040
Debt instruments at amortised cost	1,173,087	-	-	1,173,087
Other financial assets	-	-	4,889	4,889
Other investments	10	27,803	-	27,813
Total	12,571,326	2,952,402	576,909	16,100,637
			Impairment	(2,682)
			TOTAL	16,097,955

31 December 2021

In thousands of KM	EU countries	Non-EU member countries	Bosnia and Herzegovina	Total
Cash in foreign currencies	-	-	469,585	469,585
Deposits with foreign banks	3,058,334	887,676	-	3,946,010
Special Drawing Rights with the IMF	-	1,881	-	1,881
Debt instruments at fair value through other comprehensive income	11,629,592	-	-	11,629,592
Monetary gold	-	301,987	-	301,987
Other financial assets	-	-	3,957	3,957
Other investments	10	27,803	-	27,813
Total	14,687,936	1,219,347	473,542	16,380,825
			Impairment	(1,521)
			TOTAL	16,379,304

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk

Market risk is the risk of market value changes in the financial assets and instruments due to the changes in the financial market conditions. The market risks that the Central Bank faces in its operations are: foreign exchange risk, interest rate risk and gold price risk. The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return.

For the purpose of quantifying the market risk effects on the foreign currency reserves value, the Central Bank applies the Value at Risk (VaR) concept. VaR represents a statistical measure which shows the maximum loss that can occur in foreign currency reserves portfolio due to the changes in the financial instruments prices and the foreign exchange rates, given a certain level of confidence and a particular time horizon. 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% for a 10-day horizon.

For calculating VaR value of foreign currency reserves portfolio of the Central Bank, all positions which are exposed to market risks, i.e., foreign exchange risk, interest rate risk and price risk, in foreign currency reserves portfolio are considered. As at 31 December 2022, the exposure of the Central Bank's foreign currency reserves (Value at Risk at a level of confidence of 99% for a 10-day horizon), including fluctuations of the prices of financial instruments and foreign exchange rates against the KM, equals to KM 44,976 thousand (2021: KM 65,070 thousand), or 0.28% of the total financial assets (2021: 0.40% of the total financial assets).

VaR values as at reporting dates are calculated as the sum of componential VaR values:

- for deposits with foreign banks (currency VaR due to changes in foreign exchange rates),
- for debt instruments at fair value through other comprehensive income (interest rate VaR due to changes in market yields, i.e., changes in market prices of debt instruments) and
- for monetary gold (VaR due to changes in EUR price of monetary gold).

In thousands of KM	31 December 2022	31 December 2021
Interest rate risk	37,044	51,622
Risk of change in EUR price of monetary gold	7,873	13,138
Foreign exchange risk	59	310
Total VaR	44,976	65,070

6.2.1. 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.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.1. Foreign exchange risk (continued)

The control and management of 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 official 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 unimpaired equity and reserves of the Central Bank.

The Central Bank had the following foreign currency position as at 31 December 2022 and 31 December 2021:

31 December 2022

In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Cash in foreign currencies	571,982	21	17	-	572,020
Deposits with foreign banks	8,266,502	2,351	4,347	-	8,273,200
Special Drawing Rights with the IMF	-	-	149	-	149
Debt instruments at fair value through other comprehensive income	5,887,589	-	-	-	5,887,589
Monetary gold	160,040	-	-	-	160,040
Debt instruments at amortised cost	1,172,862	-	-	-	1,172,862
Other financial assets	32	-	-	4,250	4,282
Other investments	10	-	-	27,803	27,813
Total financial assets	16,059,017	2,372	4,513	32,053	16,097,955
Banknotes and coins in circulation	-	-	-	7,436,097	7,436,097
Deposits from banks	-	-	-	7,217,387	7,217,387
Deposits from the Government and other public institutions	-	-	-	958,245	958,245
Other financial liabilities	808	21	-	3,194	4,023
Total financial liabilities	808	21	-	15,614,923	15,615,752
NET FOREIGN EXCHANGE POSITION	16,058,209	2,351	4,513	(15,582,870)	482,203

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.1. Foreign exchange risk (continued)

31 December 2021

In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Cash in foreign currencies	469,548	20	17	-	469,585
Deposits with foreign banks	3,941,617	1,171	2,309	-	3,945,097
Special Drawing Rights with the IMF	-	-	1,881	-	1,881
Debt instruments at fair value through other comprehensive income	11,629,592	-	-	-	11,629,592
Monetary gold	301,987	-	-	-	301,987
Other financial assets	21	-	-	3,328	3,349
Other investments	10	-	-	27,803	27,813
Total financial assets	16,342,775	1,191	4,207	31,131	16,379,304
Banknotes and coins in circulation	-	-	-	6,923,818	6,923,818
Deposits from banks	-	-	-	7,219,617	7,219,617
Deposits from the Government and other public institutions	-	-	-	1,429,596	1,429,596
Other financial liabilities	4,889	15	1	3,118	8,023
Total financial liabilities	4,889	15	1	15,576,149	15,581,054
NET FOREIGN EXCHANGE POSITION	16,337,886	1,176	4,206	(15,545,018)	798,250

The Central Bank is not exposed to EUR foreign currency risk due to currency board arrangement aligning KM to EUR at fixed exchange rate of EUR 1 = KM 1.95583.

6.2.2. 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 the investing is done. With the longer maturity of financial instruments in which foreign currency reserves are invested, the greater is the associated risk of changes in their market value. Maximum term for investing deposits with foreign banks is one year, while maximum term of investing debt instruments with fixed income is ten years.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.2. Interest rate risk (continued)

The Central Bank uses a modified duration of debt instruments at fair value through other comprehensive income as a key measure of interest rate risk exposure. The modified duration is a measure of the price sensitivity of a financial instrument to changes in interest rates, i.e., the market yield of a debt instrument. Modified duration is expressed as the number of years and the longer the duration, the higher the interest rate risk. The modified duration of the portfolio is calculated as a weighted average of the cash flows' maturities of individual financial instruments in the portfolio, where the weight is the present value of the cash flow. During 2022 modified duration of debt instruments at fair value through other comprehensive income was shortened amounting to 0.92 as at 31 December 2022 (31 December 2021: 2.19) in order to decrease the interest rate risk and further improve the currency board stability.

The following tables show the Central Bank's exposure to interest rate risk as at reporting dates by the financial instrument's carrying amount, categorised under criteria of re-determining interest rates date in accordance with contractual arrangements or the maturity date of an instrument, whichever occurs earlier:

31 December 2022						
In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 Years	Non-interest bearing	Total
Cash in foreign currencies	-	-	-	-	572,020	572,020
Deposits with foreign banks	7,834,456	430,241	-	-	8,503	8,273,200
Special Drawing Rights with the IMF	147	-	-	-	2	149
Debt instruments at fair value through other comprehensive income	1,500,366	4,368,552	-	-	18,671	5,887,589
Monetary gold	-	-	-	-	160,040	160,040
Debt instruments at amortised cost	-	-	116,508	1,053,960	2,394	1,172,862
Other financial assets	-	-	-	-	4,282	4,282
Other investments	-	-	-	-	27,813	27,813
Total financial assets	9,334,969	4,798,793	116,508	1,053,960	793,725	16,097,955
Banknotes and coins in circulation	-	-	-	-	7,436,097	7,436,097
Deposits from banks	5,329,117	-	-	-	1,888,270	7,217,387
Deposits from the Government and other public institutions	-	-	-	-	958,245	958,245
Other financial liabilities	-	-	-	-	4,023	4,023
Total financial liabilities	5,329,117	-	-	-	10,286,635	15,615,752
INTEREST RATE GAP	4,005,852	4,798,793	116,508	1,053,960	(9,492,910)	482,203

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.2. Interest rate risk (continued)

31 December 2021	Up to 3	From 3	From 1	Over 3	Non-interest	Total
In thousands of KM	months	to 12	to 3	Years	bearing	
Cash in foreign currencies	-	-	-	-	469,585	469,585
Deposits with foreign banks	3,564,490	381,994	-	-	(1,387)	3,945,097
Special Drawing Rights with the IMF	1,881	-	-	-	-	1,881
Debt instruments at fair value through other comprehensive income	2,739,234	8,820,388	-	-	69,970	11,629,592
Monetary gold	-	-	-	-	301,987	301,987
Other financial assets	-	-	-	-	3,349	3,349
Other investments	-	-	-	-	27,813	27,813
Total financial assets	6,305,605	9,202,382	-	-	871,317	16,379,304
Banknotes and coins in circulation	-	-	-	-	6,923,818	6,923,818
Deposits from banks	5,551,424	-	-	-	1,668,193	7,219,617
Deposits from the Government and other public institutions	-	-	-	-	1,429,596	1,429,596
Other financial liabilities	-	-	-	-	8,023	8,023
Total financial liabilities	5,551,424	-	-	-	10,029,630	15,581,054
INTEREST RATE GAP	754,181	9,202,382	-	-	(9,158,313)	798,250

6.3. Liquidity risk

Liquidity risk refers to the possible difficulties in liquidating a portion of assets quickly, which is possible in the situation where market conditions are unfavourable and when there is unfavourable movement in prices.

Liquid assets are defined as those assets whose conversion into cash causes minimal transaction costs and whose value is the closest to market value.

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.

The liquidity framework should match the forecasted potential liquidity needs with identified liquid instruments. The liquidity of each financial instrument eligible for investment must be duly considered before the investment in the instrument is made.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.3. Liquidity risk (continued)

Maturity analysis

Tables below present the maturities of the Central Bank's financial liabilities as at reporting dates based on the remaining contractual maturity from the reporting dates.

Banknotes and coins in circulation have been classified in the maturity period within three months.

31 December 2022						
In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without specified maturity	Total
Banknotes and coins in circulation	7,436,097	-	-	-	-	7,436,097
Deposits from banks	7,217,387	-	-	-	-	7,217,387
Deposits from the Government and other public institutions	958,245	-	-	-	-	958,245
Other financial liabilities	4,023	-	-	-	-	4,023
TOTAL FINANCIAL LIABILITIES	15,615,752	-	-	-	-	15,615,752

31 December 2021						
In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 years	Without specified maturity	Total
Banknotes and coins in circulation	6,923,818	-	-	-	-	6,923,818
Deposits from banks	7,219,617	-	-	-	-	7,219,617
Deposits from the Government and other public institutions	1,429,596	-	-	-	-	1,429,596
Other financial liabilities	8,023	-	-	-	-	8,023
TOTAL FINANCIAL LIABILITIES	15,581,054	-	-	-	-	15,581,054

7. CASH IN FOREIGN CURRENCIES

Cash in foreign currencies represents cash held in the Central Bank's vaults. The following table presents balances of cash in foreign currencies, with an analytical presentation by type of currency:

In thousands of KM	31 December 2022	31 December 2021
Cash in foreign currencies:		
EUR	571,982	469,548
USD	21	20
GBP	17	17
TOTAL	572,020	469,585

During 2022, the Central Bank purchased cash in EUR in the amount of KM 293,375 thousand from foreign bank in order to fulfil its legal obligation of guaranteeing the convertibility of KM for EUR, i.e., to execute transactions of purchase and sale of KM for EUR without restrictions. For more information see Note 3.13.

8. DEPOSITS WITH FOREIGN BANKS

Deposits with foreign banks represent the Central Bank's invested foreign currency reserves funds held on the accounts with foreign banks and other financial institutions. Deposits with foreign banks include demand deposits and term deposits and are held with foreign banks of euro area and non-euro area countries (Note 6.1.2.).

The following table presents balances of term and demand deposits, with an analytical presentation by type of currency:

In thousands of KM	31 December 2022	31 December 2021
Term deposits:		
EUR	6,646,490	2,592,738
Impairment	(1,734)	(764)
Total	6,644,756	2,591,974
Demand deposits:		
EUR	1,621,860	1,349,790
USD	2,351	1,171
CHF	2,306	109
GBP	2,043	2,202
	1,628,560	1,353,272
Impairment	(116)	(149)
Total	1,628,444	1,353,123
TOTAL	8,273,200	3,945,097

8. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

As disclosed in Note 3.13., during 2022, tightening of the ECB monetary policy in the direction of abrupt increase in the key interest rates directly resulted in the increase of interest rates on foreign currency reserves which the Central Bank can hold with foreign banks.

The average negative interest rates on term deposits denominated in EUR currency, ended with July 2022, ranged from 0.59% to 0.24% p.a. From July 2022, the average positive interest rates on term deposits ranged from 0.02% to 2.11% p.a. (2021: The average negative interest rates ranged from 0.64% to 0.50% p.a.).

The average negative interest rates on demand deposits denominated in EUR currency, ended with August 2022, ranged from 0.90% to 0.21% p.a. From August 2022, the average positive interest rates ranged from 0.00% to 1.68% p.a. (2021: The average negative interest rates ranged from 0.90% to 0.50% p.a.).

Deposits with foreign banks include positive accrued interest in the amount KM 8,503 thousand as at 31 December 2022 (2021: Included negative accrued interest in the amount KM 1,387 thousand).

The average effective yield rate on deposits with foreign banks amounts to 0.21% for 2022 (2021: The average negative effective yield rate amounted to 0.54%).

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

In thousands of KM	31 December 2022	31 December 2021
Up to one month	3,980,765	1,055,372
From one to two months	1,469,432	457,180
From two to three months	764,312	698,391
From three to four months	431,981	95,591
From four to twelve months	-	286,204
Total	6,646,490	2,592,738
Impairment	(1,734)	(764)
TOTAL	6,644,756	2,591,974

Deposits with foreign banks, analysed by the type of the financial institution in which the funds are invested, are provided in the following table:

In thousands of KM	31 December 2022	31 December 2021
Foreign central banks	4,619,177	2,467,662
Foreign commercial banks	3,652,090	1,477,588
International financial institutions	3,783	760
Total	8,275,050	3,946,010
Impairment (Note 6.1.1)	(1,850)	(913)
TOTAL	8,273,200	3,945,097

More information about the Central Bank's composite credit rating range and credit risk concentration for deposits with foreign banks as at reporting dates is disclosed in Note 6.1.2.

8. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

Deposits with foreign banks, analysed by the country where funds are invested, are presented in the following table:

In thousands of KM		31 December 2022	31 December 2021
Luxembourg			
	Term deposits	1,235,348	68,336
	Demand deposits	392,457	300,525
		1,627,805	368,861
Switzerland			
	Term deposits	1,574,653	381,795
	Demand deposits	3,783	760
		1,578,436	382,555
Slovakia			
	Term deposits	1,390,179	1,148,980
	Demand deposits	-	-
		1,390,179	1,148,980
France			
	Term deposits	1,260,994	488,958
	Demand deposits	78,346	78,200
		1,339,340	567,158
Great Britain			
	Term deposits	1,185,316	504,668
	Demand deposits	-	-
		1,185,316	504,668
Germany			
	Term deposits	-	-
	Demand deposits	1,055,215	914,686
		1,055,215	914,686
Netherlands			
	Term deposits	-	-
	Demand deposits	98,100	58,650
		98,100	58,650
USA			
	Term deposits	-	-
	Demand deposits	659	452
		659	452
Total term deposits		6,646,490	2,592,737
Total demand deposits		1,628,560	1,353,273
Impairment		(1,850)	(913)
TOTAL		8,273,200	3,945,097

9. SPECIAL DRAWING RIGHTS WITH THE IMF

In thousands of KM	31 December 2022	31 December 2021
Account of Special Drawing Rights with the IMF	147	1,881
Accrued interest	2	-
Total	149	1,881
Impairment	-	-
TOTAL	149	1,881

Changes in Special Drawing Rights with the IMF in the reporting periods are presented in the following table:

In thousands of KM	2022	For the period 2021
As at 1 January	1,881	879
Proceeds based on the account of Special Drawing Rights	22,772	613,399
Outflows	(24,445)	(611,172)
Interest income on the account of Special Drawing Rights	27	3
Collection of the accrued interest	(25)	(4)
Net foreign exchange (losses)	(61)	(1,224)
As at 31 December	149	1,881

During the comparable reporting year, the IMF remitted funds to Bosnia and Herzegovina based on SDR allocation.

10. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt instruments at fair value through other comprehensive income represent foreign currency reserve funds invested in liquid sovereign government bonds of euro area countries. The portfolio of these debt instruments 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 currency.

The structure of investments in debt instruments at fair value through other comprehensive income is presented in the following table:

In thousands of KM	31 December 2022	31 December 2021
Coupon debt instruments	4,656,303	7,931,557
Accrued interest on coupon debt instruments	31,978	57,320
	4,688,281	7,988,877
Discount debt instruments	1,212,615	3,628,065
Accrued (discount) / premium on discount debt instruments	(13,307)	12,650
	1,199,308	3,640,715
TOTAL	5,887,589	11,629,592

As at 31 December 2022, provisions for expected credit losses for debt instruments, recognised in other comprehensive income, amount to KM 910 thousand (31 December 2021: KM 1,786 thousand). During 2022, the net release in provisions for expected credit losses recognised in profit or loss, amounts to KM 239 thousand (2021: net increase of KM 330 thousand) For more information see Notes 6.1.1 and 27.

10. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)

The average negative effective yield rate on debt instruments at fair value through other comprehensive income amounts to 0.74% for 2022 (2021: The average positive effective yield rate amounted to 0.12%).

Debt instruments at fair value through other comprehensive income, analysed by the country where funds are invested, are presented in the following table:

	31 December 2022		31 December 2021	
	In thousands of KM	%	In thousands of KM	%
<i>Germany</i>	1,698,303	28.84	1,799,664	15.47
<i>France</i>	1,244,391	21.13	3,986,839	34.28
<i>Spain</i>	795,710	13.52	1,428,865	12.29
<i>Italy</i>	487,539	8.28	669,171	5.75
<i>Belgium</i>	483,940	8.22	1,672,536	14.38
<i>Austria</i>	461,229	7.83	902,759	7.76
<i>Netherlands</i>	444,257	7.55	723,387	6.22
<i>Finland</i>	231,787	3.94	446,371	3.85
<i>Ireland</i>	40,433	0.69	-	-
UKUPNO	5,887,589	100.00	11,629,592	100.00

More information about the Central Bank's composite credit rating range and credit risk concentration for debt instruments at fair value through other comprehensive income as at reporting dates is disclosed in Note 6.1.2.

Changes in debt instruments at fair value through other comprehensive income during the reporting periods are presented in the following table:

In thousands of KM	2022	2021
As at 1 January	11,629,592	9,601,315
Purchases during the year	4,706,082	7,132,180
Sales during the year	(4,632,890)	(1,153,402)
Interest income recognised during the year (Note 22)	21,900	33,346
Effects of negative interest rates recognised during the year (Note 22)	(26,880)	(25,880)
Maturities of debt instruments	(5,365,116)	(3,724,978)
Maturities of coupon	(79,955)	(103,406)
Net unrealised change in fair value during the year	(365,150)	(129,592)
Transaction costs	6	9
As at 31 December	5,887,589	11,629,592

Debt instruments at fair value through other comprehensive income, analysed by their remaining contractual maturity, are presented in the following table:

**10. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
(CONTINUED)**

In thousands of KM	31 December 2022	31 December 2021
Up to three months	514,934	1,114,409
From three to twelve months	3,120,538	4,093,847
From one to three years	2,180,052	2,958,887
Over three years	72,065	3,462,449
TOTAL	5,887,589	11,629,592

For more information on activities related to portfolio of debt instruments at fair value through other comprehensive income see Note 3.13.

11. MONETARY GOLD

As at reporting dates, the values of the input data for calculating the fair value of monetary gold are provided in the following table:

In thousands of KM

As at	Quantity of ounces	Price per ounce in KM	Fair value of monetary gold as at
31 December 2022	48,000	3,334	160,040
31 December 2021	96,000	3,146	301,987

Changes in monetary gold in the reporting periods are provided in the following table:

In thousands of KM	2022	2021
As at 1 January	301,987	291,561
Sales during the year	(161,943)	-
Net unrealised change in fair value during the year	19,996	10,426
As at 31 December	160,040	301,987

During 2022, the Central Bank sold 48,000 ounces of monetary gold and realised the net gain in the amount of KM 60,014 thousand. For more information see Note 25.

12. DEBT INSTRUMENTS AT AMORTISED COST

Debt instruments at amortised cost represent Central Bank's foreign currency reserves funds invested in liquid sovereign government bonds of the euro area countries with the intention of holding them until maturity. As at reporting date, this portfolio consists of long-term coupon government bonds with a fixed interest rate. Debt instruments at amortised cost are denominated in EUR currency.

The structure of investments in debt instruments at amortised cost is presented in the following table:

In thousands of KM	31 December 2022	31 December 2021
Coupon debt instruments	1,170,693	-
Accrued interest on coupon debt instruments	2,394	-
Total	1,173,087	-
Impairment	(225)	-
TOTAL	1,172,862	-

The average effective yield rate on debt instruments at amortised cost amounts to 0.98% for 2022.

Debt instruments at amortised cost, analysed by the country where the funds are invested in, are presented in the following table:

	31 December 2022		31 December 2021	
	In thousands of KM	%	In thousands of KM	%
<i>France</i>	219,864	18.74	-	-
<i>Spain</i>	190,370	16.23	-	-
<i>Austria</i>	189,737	16.17	-	-
<i>Italy</i>	152,343	12.99	-	-
<i>Finland</i>	92,434	7.88	-	-
<i>Belgium</i>	91,070	7.76	-	-
<i>Germany</i>	58,883	5.02	-	-
<i>Netherlands</i>	55,142	4.70	-	-
<i>Ireland</i>	54,470	4.64	-	-
<i>Slovakia</i>	41,776	3.56	-	-
<i>Luxembourg</i>	26,998	2.31	-	-
Total	1,173,087	100.00	-	-
Impairment	(225)		-	
TOTAL	1,172,862		-	

More information about the Central Bank's composite credit rating range and credit risk concentration for debt instruments at amortised cost as at reporting dates is disclosed in Note 6.1.2.

Changes in debt instruments at amortised cost during the reporting periods are presented in the following table:

12. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)

In thousands of KM	2022	2021
As at 1 January	-	-
Purchases during the year	1,166,137	-
Interest income recognised during the year (Note 22)	8,669	-
Maturities of coupons	(1,721)	-
Net impairment during the year	(225)	-
Transaction costs	2	-
As at 31 December	1,172,862	-

Debt instruments at amortised cost, analysed by their remaining contractual maturity, are presented in the following table:

In thousands of KM	31 December 2022	31 December 2021
Up to 3 months	-	-
From 3 to 12 months	-	-
From 1 to 3 years	116,872	-
Over 3 years	1,056,215	-
Total	1,173,087	-
Impairment	(225)	-
TOTAL	1,172,862	-

13. OTHER ASSETS

In thousands of KM	31 December 2022	31 December 2021
Receivables from domestic banks	2,495	2,203
Giro accounts	1,435	682
Receivables from employee based on domestic currency deficit	600	600
Other miscellaneous financial assets	359	472
Total	4,889	3,957
Impairment	(607)	(608)
Total other financial assets	4,282	3,349
Prepaid expenses for banknotes and coins production	12,995	11,164
Numismatic collections	1,190	981
Prepaid expenses for business administration	587	1,194
Other miscellaneous nonfinancial assets	226	239
Total other nonfinancial assets	14,998	13,578
TOTAL	19,280	16,927

As explained in Note 3.9, prepaid expenses for banknotes and coins production are initially recognised as accrued expenses and subsequently amortised by the expense recognising over the five years period. For more information see Note 31.

14. PROPERTY AND EQUIPMENT

In thousands of KM	Land and buildings	Equipment and furniture	Vehicles	Other	Assets under construction	Property and equipment total
Cost						
As at 1 January 2021	44,368	25,960	1,684	1,081	5,288	78,381
Additions	-	-	-	-	3,731	3,731
Transferred to use	5,306	3,670	-	1	(8,977)	-
Returned to use	-	-	64	-	-	64
Write offs and disposals	-	(1,889)	(336)	(4)	-	(2,229)
As at 31 December 2021	49,674	27,741	1,412	1,078	42	79,947
Additions	-	-	-	-	838	838
Transferred to use	-	750	-	-	(750)	-
Write offs and disposals	-	(2,022)	(10)	(19)	-	(2,051)
As at 31 December 2022	49,674	26,469	1,402	1,059	130	78,734
Accumulated depreciation						
As at 1 January 2021	6,553	20,930	1,472	866	-	29,821
Charge for the year	580	1,421	75	37	-	2,113
Returned to use	-	-	64	-	-	64
Write offs and disposals	-	(1,888)	(336)	(4)	-	(2,228)
As at 31 December 2021	7,133	20,463	1,275	899	-	29,770
Charge for the year	580	1,787	73	37	-	2,477
Write offs and disposals	-	(2,019)	(10)	(19)	-	(2,048)
As at 31 December 2022	7,713	20,231	1,338	917	-	30,199
Net carrying amount						
As at 1 January 2022	42,541	7,278	137	179	42	50,177
As at 31 December 2022	41,961	6,238	64	142	130	48,535

The Central Bank has a temporary restriction on right of use over the land purchased for the purpose of new office building construction for Main Unit Sarajevo of the Central Bank. The temporary restriction is related to the failure to issue urban planning permission from the land seller needed for beginning with the construction of the new office building by the Central Bank. The Central Bank is the legal owner of the land and has no outstanding contractual obligations to the land seller.

As at reporting dates, except from the above mentioned, the Central Bank has no other encumbrances over its property and equipment.

15. INTANGIBLE ASSETS

In thousands of KM	Software and other intangible assets	Intangible assets under construction	Intangible assets total
Cost			
As at 1 January 2021	15,657	322	15,979
Additions	-	157	157
Transferred to use	479	(479)	-
Write offs and disposals	-	-	-
As at 31 December 2021	16,136	-	16,136
Additions	-	287	287
Transferred to use	287	(287)	-
Write offs and disposals	(470)	-	(470)
As at 31 December 2022	15,953	-	15,953
Accumulated amortisation			
As at 1 January 2021	14,745	-	14,745
Charge for the year	408	-	408
Write offs and disposals	-	-	-
As at 31 December 2021	15,153	-	15,153
Charge for the year	426	-	426
Write offs and disposals	(470)	-	(470)
As at 31 December 2022	15,109	-	15,109
Net carrying amount			
As at 1 January 2022	983	-	983
As at 31 December 2022	844	-	844

16. OTHER INVESTMENTS

The structure of other investments is as follows:

In thousands of KM	31 December 2022	31 December 2021
<i>Equity instruments:</i>		
Shares in BIS	27,803	27,803
Shares in SWIFT	10	10
TOTAL	27,813	27,813

BIS is specialised financial institution owned and managed by 63 central banks all over the world whose main role is to foster central banks' cooperation, ensure monetary and financial stability and mediate in financial transactions between central banks. BIS shares are exclusively owned by central banks and monetary authorities.

SWIFT is a cooperation owned by the financial institutions that are its members.

BIS and SWIFT shares are not tradable.

16. OTHER INVESTMENTS (CONTINUED)

The Central Bank owns ordinary BIS shares with a nominal value of SDR 5,000 per share, paid up at 25% of their nominal value by former Yugoslavia. In accordance with the Statue of BIS, remaining 75% of the share's nominal value is payable upon call for payment from BIS by the Central Bank. The Central Bank has a dividend right arising from these shares (Note 28).

SWIFT shares are composed of two ordinary shares and their total value is KM 10 thousand.

BIS and SWIFT shares represent unquoted equity instruments whose fair value cannot be reliably determined and therefore they are recorded at cost.

17. BANKNOTES AND COINS IN CIRCULATION

Changes in banknotes and coins in circulation during the reporting periods are presented in the following table:

In thousands of KM	2022	2021
As at 1 January	6,923,818	6,172,457
Net increase in value of banknotes and coins in circulation during the year	512,279	751,361
As at 31 December	7,436,097	6,923,818

The denomination structure and the quantity of banknotes and coins in circulation are presented in the following table:

31 December 2022				31 December 2021			
Denomination		Pieces	Value in thousands of KM	Pieces		Value in thousands of KM	
Coins	0.05	94,835,088	4,742	87,887,648		4,394	
Coins	0.10	134,369,633	13,437	124,580,693		12,458	
Coins	0.20	98,502,878	19,701	90,394,860		18,079	
Coins	0.50	46,202,553	23,101	43,295,285		21,648	
Coins	1	69,045,388	69,045	63,499,924		63,500	
Coins	2	19,744,315	39,489	18,104,332		36,209	
Coins	5	14,846,895	74,234	13,647,262		68,236	
Total coins		477,546,750	243,749	441,410,004		224,524	
Banknotes	10	14,985,812	149,858	14,244,184		142,442	
Banknotes	20	11,453,994	229,080	10,787,416		215,748	
Banknotes	50	27,570,944	1,378,547	26,420,846		1,321,042	
Banknotes	100	45,234,277	4,523,428	41,107,777		4,110,778	
Banknotes	200	4,557,175	911,435	4,546,419		909,284	
Total banknotes		103,802,202	7,192,348	97,106,642		6,699,294	
TOTAL		581,348,952	7,436,097	538,516,646		6,923,818	

18. DEPOSITS FROM BANKS

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

In thousands of KM	31 December 2022	31 December 2021
Deposits from domestic banks	7,215,919	7,218,902
Reserve accounts of the Central Bank organizational units	1,435	682
Special deposit of domestic banks – blocked funds	33	33
TOTAL	7,217,387	7,219,617

Deposits from domestic banks are placed in accordance with required reserve policy of the Central Bank, to meet obligations for settling payment transactions between domestic banks mutually as well as for transactions with the Central Bank. As at 31 December 2022 the total amount of KM 7,215,919 thousand represents deposits of 23 domestic banks (2021: KM 7,218,902 thousand represented deposits of 23 banks). For more information see Note 38.

Deposits from domestic banks, on the basis of required reserve policy, include negative accrued remuneration in the amount KM 894 thousand as at 31 December 2022 (31 December 2021: Included negative accrued remuneration in the amount KM 2,498 thousand).

The base for the required reserve calculation for domestic banks consists of deposits and borrowings regardless of the expressed currency.

The unique required reserve ratio is established to be applied by the Central Bank on the required reserve base equally to all domestic banks. Required reserve ratio amounts to 10% as at the reporting dates.

Amounts exceeding the required reserve are deposits that domestic banks hold on their reserve accounts. The Central Bank calculates negative remuneration rate on these funds. More information on policy for remuneration rate calculation on deposits from domestic banks during the reporting periods is provided in Notes 22 and 39.

19. 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	31 December 2022	31 December 2021
Budgetary deposits from BH institutions	560,390	693,533
Deposits from other public institutions	272,721	304,875
Deposits from other local governments and government institutions	125,108	279,323
Deposit account under the IMF transactions	26	151,711
Deposits – BH external debt	-	154
TOTAL	958,245	1,429,596

20. PROVISIONS

Provisions are related to provisions for employees' severance payments and jubilee awards and provisions for potential liabilities on litigations. As at reporting dates, the Central Bank has no provisions for litigations.

Changes in provisions are presented in the following tables:

				2022
In thousands of KM				
	Litigations	Severance payments	Jubilee awards	Total
As at 1 January	-	1,373	33	1,406
Released provisions	-	(398)	-	(398)
Increase in provisions	-	58	13	71
Total recognised in profit or loss	-	(340)	13	(327)
Amounts paid	-	(173)	(9)	(182)
As at 31 December	-	860	37	897

				2021
In thousands of KM				
	Litigations	Severance payments	Jubilee awards	Total
As at 1 January	-	1,414	-	1,414
Released provisions	-	(105)	-	(105)
Increase in provisions	-	243	33	276
Total recognised in profit or loss	-	138	33	171
Amounts paid	-	(179)	-	(179)
As at 31 December	-	1,373	33	1,406

Litigations

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

Commitments

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

21. OTHER LIABILITIES

The structure of other liabilities is presented in the following table:

In thousands of KM	31 December 2022	31 December 2021
IMF Accounts No. 1 and 2 (Note 37)	2,268	2,242
Suppliers	1,322	1,560
The World Bank deposits	315	89
Accrued, but non-invoiced liabilities	101	4,114
Other financial liabilities	17	18
Total other financial liabilities	4,023	8,023
Non-financial liabilities on various bases	229	87
Collected and deferred income	49	52
Total other nonfinancial liabilities	278	139
TOTAL	4,301	8,162

22. NET INTEREST INCOME

In thousands of KM	For the year ended 31 December	
Interest income arising from:	2022	2021
Effects of negative deposit interest rates on deposits from domestic banks	25,205	22,218
Deposits with foreign banks	23,031	1
Debt instruments at fair value through other comprehensive income (Note 10)	21,900	33,346
Debt instruments at amortised cost (Note 12)	8,669	-
Special Drawing Rights with the IMF	27	3
Total	78,832	55,568
Interest expense arising from:		
Effects of negative interest rates from debt instruments at fair value through other comprehensive income (Note 10)	(26,880)	(25,884)
Effects of negative interest rates from deposits with foreign banks	(12,146)	(19,536)
Total	(39,026)	(45,420)
Net interest income	39,806	10,148

22. NET INTEREST INCOME (CONTINUED)

Total interest and similar income and expenses by classes of financial instruments are presented in the following table:

In thousands of KM	For the year ended 31 December	
	2022	2021
1. Financial assets at amortised cost		
<i>Interest income arising from:</i>		
Deposits with foreign banks	23,031	1
Debt instruments at amortised cost	8,669	-
Special Drawing Rights with the IMF	27	3
	<u>31,727</u>	<u>4</u>
<i>Interest expense arising from:</i>		
Effects of negative interest rates from deposits with foreign banks	(12,146)	(19,536)
	<u>(12,146)</u>	<u>(19,536)</u>
Total	19,581	(19,532)
2. Financial assets at fair value through other comprehensive income		
Interest income arising from debt instruments at fair value through other comprehensive income	21,900	33,346
Effects of negative interest rates from debt instruments at fair value through other comprehensive income	(26,880)	(25,884)
Total	(4,980)	7,462
3. Financial liabilities at amortised cost		
Effects of negative deposit interest rates on deposits from domestic banks	25,205	22,218
Total	25,205	22,218
Net interest income	39,806	10,148

The base for calculation of interest expense, i.e., the effects of negative deposit interest rates on deposits from domestic banks is generated from the total amount of deposits of domestic banks on reserve accounts during the ten-day calculation period, which consists of required reserve amounts and the amounts exceeding the required reserves.

The Central Bank does not calculate remuneration on the required reserves amounts generated from domestic currency base. The remuneration is calculated on the required reserves amounts generated from the foreign currency base and the domestic currency with a currency clause base. The remuneration is also calculated on the amounts exceeding the required reserves.

In the period 01/01 -31/08/2022, the remuneration rates applied by the Central Bank are linked to the ECB deposit facility rate, additionally reduced by 10 basis points for the required reserves amounts generated from the foreign currency base and the domestic currency with a currency clause base and by 25 basis points for the amounts exceeding the required reserves. In the period 01/09 -31/12/2022, negative remuneration rates are determined in fixed amounts and equal 10 basis points on the required reserves amounts generated from the foreign currency base and the domestic currency with a currency clause base and 25 basis points for the amounts exceeding the required reserves.

22. NET INTEREST INCOME (CONTINUED)

In the period 01/01 - 31/05/2021 the Central Bank applied remuneration rate only on the amounts exceeding the required reserves which was equal to the ECB deposit facility rate. In the period 01/06 - 31/12/2021 the Central Bank started to calculate the remuneration rate on the required reserves amounts reduced by 10 basis points, while the remuneration rate on the amounts exceeding the required reserves remained unchanged.

For more information about ECB deposit facility rates see Notes 3.13. and 6.

The effects of negative deposit interest rates on domestic 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. During the reporting periods, the Central Bank's negative remuneration rates amounted to:

Base for calculation of remuneration	The Central Bank remuneration rate for the period	
2022		
Required reserves amounts	01/01 - 31/7	01/08 - 31/12
<i>Domestic currency base</i>	0.00%	0.00%
<i>Foreign currency base</i>	(0.60%)	(0.10%)
<i>Domestic currency with currency clause base</i>	(0.60%)	(0.10%)
Amounts exceeding the required reserves	(0.75%)	(0.25%)
2021		
Required reserves amounts	01/01 - 31/5	01/06 - 31/12
<i>Domestic currency base</i>	0.00%	0.00%
<i>Foreign currency base</i>	0.00%	(0.60%)
<i>Domestic currency with currency clause base</i>	0.00%	(0.60%)
Amounts exceeding the required reserves	(0.50%)	(0.50%)

The remuneration rates applied by the Central Bank arising from the required reserves instrument are determined solely to cover its opportunity costs that are generated from the holding deposit funds of domestic banks and for the purpose of strengthening the domestic currency and are a consequence of the Central Bank's exposure to the negative interest rates on the financial markets during the major part of 2022. More information regarding the required reserves policy of the Central Bank is disclosed in Note 18.

Effects of negative deposit interest rates on deposits from domestic banks include income of KM 19,985 thousand from the amounts exceeding the required reserves and income of KM 5,220 thousand from the amounts of required reserves (2021: KM 17,422 thousand arising from the amounts exceeding the required reserves and KM 4,796 thousand arising from the amounts of required reserves).

22. NET INTEREST INCOME (CONTINUED)

Effects of negative interest rates from interest-bearing financial assets are the result of 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 Central Bank's foreign currency reserves. During 2022, the zone of negative interest rates with foreign banks and yields on debt instruments has been converted to its positive zone. For more information see Note 3.13.

As at 31 December 2022, all deposits with foreign banks are invested at positive interest rates.

Following table presents interest income and effects of negative interest rates from deposits with foreign banks with an analytical presentation of corresponding amounts by the term type:

	For the year ended 31 December	
In thousands of KM	2022	2021
Interest income		
Term deposits	19,585	-
Demand deposits	3,446	1
Total	23,031	1
Interest expense		
Term deposits	(10,147)	(15,815)
Demand deposits	(1,999)	(3,721)
Total	(12,146)	(19,536)
Net interest income	10,885	(19,535)

23. NET FEE AND COMMISSION INCOME

	For the year ended 31 December	
In thousands of KM	2022	2021
Fee and commission income arising from:		
Services for domestic banks	20,969	18,759
Services for the Government and other non-banking clients	1,735	2,211
Total	22,704	20,970
Fee and commission expenses arising from:		
Custodian and other expenses for debt instruments	(749)	(777)
Transactions with foreign banks	(36)	(29)
Other fee and commission expenses	(6)	(7)
Total	(791)	(813)
Net fee and commission income	21,913	20,157

23. NET FEE AND COMMISSION INCOME (CONTINUED)

The Central Bank calculates fee and commission income under determined tariffs for its services (Note 3.9). Fee and commission income for domestic banks are dominantly generated from transactions in the Real-Time Gross Settlement system and Gyro Clearing system. More information on payment systems functioning is disclosed in Note 38.

24. NET REALISED (LOSSES) / GAINS FROM SALE OF DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	For the year ended 31 December	
In thousands of KM	2022	2021
Realised gains	20,145	6,476
Realised losses	(83,615)	(1,527)
TOTAL	(63,470)	4,949

The corresponding amounts of realised gains from released provisions for expected credit losses for debt instruments are presented in Note 6.1.1.

25. NET REALISED GAINS FROM SALE OF MONETARY GOLD

Gains arising from fair value changes of monetary gold recognised in other comprehensive income, within fair value reserves for monetary gold, are recognised as realized gains in profit or loss account at the sale date. Net realised gains from the sale of 48,000 ounces of monetary gold carried out during 2022 amount to KM 60,014 thousand.

26. NET FOREIGN EXCHANGE (LOSSES)

	For the year ended 31 December	
In thousands of KM	2022	2021
Net unrealised foreign exchange (losses)	(150)	(670)
Net realised foreign exchange gains	108	184
TOTAL	(42)	(486)

27. NET IMPAIRMENT ON FINANCIAL ASSETS

In thousands of KM	For the year ended 31 December	
	2022	2021
Net (increase) in impairment for deposits with foreign banks	(937)	(106)
Net (increase) in / release of impairment for Special Drawing Rights with the IMF	-	-
Net release of / (increase) in provisions for expected credit losses for debt instruments at fair value through other comprehensive income	239	(330)
Net (increase) in provisions for expected credit losses for debt instruments at amortised cost	(225)	-
Net (increase) in / release of impairment for other financial assets	(1)	10
TOTAL	(924)	(426)

More information on the amounts of total increases and releases from expected credit losses in the reporting periods is disclosed in Note 6.1.1.

28. OTHER INCOME

In thousands of KM	For the year ended 31 December	
	2022	2021
Dividend income	721	1,297
Net effects of numismatic collections value adjustments	61	4
Other income	68	101
TOTAL	850	1,402

During 2022, the Central Bank received a dividend from BIS shares amounting to KM 721 thousand (2021: KM 1,297 thousand). In the comparative reporting period, received dividend consisted of a normal dividend and a supplement to the dividend per share. For more information see Note 16.

29. PERSONNEL EXPENSES

	For the year ended 31 December	
In thousands of KM	2022	2021
Salaries	10,499	10,678
Contributions and other fees on salaries	5,874	6,090
Other employee benefits	2,025	2,089
Contributions and other fees on other employee benefits	551	641
Total	18,949	19,498
Net (release) of / increase in provisions for employees' severance payments and jubilee awards (Note 20)	(327)	171
TOTAL	18,622	19,669

Personnel expenses include KM 3,637 thousand (2021: KM 3,756 thousand) of defined pension contributions paid to the public pension funds in BH. Contributions are calculated as percentage of the gross salary.

Other employee benefits are mainly comprised of expenses arising from meal allowances, transport services and vacation bonuses.

The average number of employees amounts to 352 for 2022 (2021: 368).

The discount rate of 4% is used for calculation of the severance payments and the jubilee awards (2021: 2%)

30. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	For the year ended 31 December	
In thousands of KM	2022	2021
Payment systems maintenance expenses	1,691	1,713
Overhead expenses	913	957
IT infrastructure expenses	896	878
Access to official services expenses	751	681
Fixed assets maintenance expenses	520	470
Other administrative and operating expenses	2,220	1,815
TOTAL	6,991	6,514

31. COSTS OF PRODUCTION OF BANKNOTES AND COINS

	For the year ended 31 December	
In thousands of KM	2022	2021
Costs of production and design of banknotes	2,128	2,767
Costs of production and design of coins	1,604	1,376
TOTAL	3,732	4,143

32. ALLOCATION OF THE ANNUAL NET PROFIT

The allocation of the net profit is carried out in accordance with the Law on the Central Bank.

The provisions of the Law on the Central Bank define the criteria of the net profit allocation, according to which the Central Bank allocates 60% of the current profit to the account of the institution responsible for the Budget of BH, provided that the amount of the initial capital and general reserves (retained earnings) is equal to 5.00% of the total monetary liabilities.

This ratio, before the profit allocation in 2022 amounted to 3.67% (2021: 3.66%). According to the Decision of the Governing Board, total amount of net profit for the 2022 financial year in the amount of KM 25,899 thousand is allocated to the general reserves (retained earnings) of the Central Bank (2021: total of the net profit for the 2021 financial year in the amount of KM 2,897 thousand was allocated to the general reserves (retained earnings) of the Central Bank).

2022

Before profit allocation

(In thousands of KM)

Monetary liabilities	15,611,729
Initial capital and general reserves (retained earnings)	573,100
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	3.67%

Profit allocation

(In thousands of KM)

Net profit before allocation	25,899
Allocation of profit to general reserves (retained earnings)	25,899

After profit allocation

(In thousands of KM)

Monetary liabilities	15,611,729
Initial capital and general reserves (retained earnings)	598,999
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	3.84%

2021

Before profit allocation

(In thousands of KM)

Monetary liabilities	15,573,031
Initial capital and general reserves (retained earnings)	570,203
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	3.66%

Profit allocation

(In thousands of KM)

Net profit before allocation	2,897
Allocation of profit to general reserves (retained earnings)	2,897

After profit allocation

(In thousands of KM)

Monetary liabilities	15,573,031
Initial capital and general reserves (retained earnings)	573,100
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	3.68%

33. EQUITY

The structure of equity is presented in the following table:

In thousands of KM	31 December 2022	31 December 2021
Initial capital	25,000	25,000
Fair value reserves for debt and equity instruments	(143,005)	158,914
Fair value reserves for monetary gold	58,111	98,129
Other reserves	31,300	31,300
General reserves (Retained earnings)	573,999	548,100
TOTAL	545,405	861,443

Initial capital

Initial capital represents nominal capital paid in on 12 June 1998 in accordance with the Law on Central Bank.

Fair value reserves

Fair value reserves relate to:

- Fair value reserves for debt instruments and monetary gold representing cumulative unrealised gains and losses arising from changes in market value of these financial assets during the holding period.
- Provisions for expected credit losses relating to debt instruments measured at fair value through other comprehensive income. For more information see Note 6.1.1.

Other reserves

Other reserves relate to:

- Special reserves from grants in the amount of KM 3,497 thousand, which relate to grants received in cash from the Council of Ministers of Bosnia and Herzegovina on 12 June 1998. The status of these reserves is regulated by the Decision of the Governing Board of the Central Bank with the approval of the Presidency of Bosnia and Herzegovina. The right to utilise the reserves from grants fall within the competence of the Governing Board of the Central Bank.
- Amounts received in accordance with the Succession Agreement of the former Yugoslavia in the amount of KM 27,803 thousand and relates to shares in BIS (see Note 16).

General reserves (Retained earnings)

General reserves (Retained earnings) comprise of accumulated undistributed profits of the Central Bank since the beginning of its operations on 11 August 1997. Status of General reserves (Retained earnings) is in jurisdiction of the Central Bank's Governing Board. General reserves (Retained earnings) are primarily used for the Central Bank's net profit or loss allocation, as prescribed by the Law on the Central Bank.

As at 31 December 2022, the equity of the Central Bank has decreased compared to its balance at 31 December 2021 as the result of changed circumstances in which the Central Bank conducted its operations. For more information see Note 3.13. The decline in the fair value reserves is the reflection of the Central Bank's debt instruments market price changes and does not withdraw any actual loss for the Central Bank nor threatens the collection of contractual cash flows from debt instruments during their holdings. As at the reporting date, the capitalisation level of the Central Bank is sufficiently high to absorb temporary increases of market yields and/or decreases of the gold market prices in the foreign currency reserves portfolio. For more information about the Central Bank's credit risk management see Note 6.1.2.

34. CASH AND CASH EQUIVALENTS

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

In thousands of KM	31 December 2022	31 December 2021
Foreign currency deposits with maturity up to three months or less from the date of acquisition	5,646,221	2,162,164
Foreign currency demand deposits	1,628,560	1,353,272
Cash in foreign currencies	572,020	469,585
Special Drawing Rights with the IMF	149	1,881
Giro accounts	1,435	682
Total	7,848,385	3,987,584
Impairment	(1,752)	(858)
TOTAL	7,846,633	3,986,726

Changes in expected credit losses on cash and cash equivalents in the reporting periods are provided below:

In thousands of KM	2022	2021
As at 1 January	858	674
Foreign currency deposits with maturity up to three months or less from the date of acquisition	927	214
Foreign currency demand deposits	(33)	(30)
Cash in foreign currencies	-	-
Special Drawing Rights with the IMF	-	-
Giro accounts	-	-
As at 31 December	1,752	858

35. RELATED PARTY 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 Parliamentary Assembly of Bosnia and Herzegovina and that the initial capital has been paid up in accordance with the Law on the Central Bank, transactions performed as part of regular operations of the Central Bank with the state and BH institutions represent related party transactions. In accordance with the Law on the Central Bank, the Central Bank acts as an agent for the BH state and for other BH institutions. The Central Bank receives deposits from BH state and other public agencies as determined by the Presidency of BH and acts strictly on depositors' behalf and order.

Transactions with the state and BH institutions are disclosed in the following table:

35. RELATED PARTY TRANSACTIONS (CONTINUED)

In thousands of KM

As at
31 December 2022

	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
ASSETS				
Other assets	30	3	11	44
TOTAL	30	3	11	44
LIABILITIES				
Deposits from depositors	423,902	230,883	202,588	857,373
Other liabilities	-	-	1	1
TOTAL	423,902	230,883	202,589	857,374

In thousands of KM

As at
31 December 2021

	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
ASSETS				
Other assets	62	31	23	116
TOTAL	62	31	23	116
LIABILITIES				
Deposits from depositors	917,836	287,313	163,300	1,368,449
	-	-	1	1
TOTAL	917,836	287,313	163,301	1,368,450

Generated income with the State and BH institutions is presented in the following table:

	For the year ended 31 December	
In thousands of KM	2022	2021
Fee and commission income		
BH Ministry of Finance and Treasury	129	393
BH Indirect taxation authority	122	140
BH Deposit Insurance Agency	54	183
TOTAL	305	716

35. RELATED PARTY TRANSACTIONS (CONTINUED)

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 BH institutions that are recorded off-balance. More information about these off-balance records is disclosed in Notes 36 and 37.

Remuneration of key management members

In accordance with IAS 24, key management personnel, close family members of key management personnel, and entities controlled, jointly controlled or significantly influenced by key management personnel and their close family members are considered as related parties.

The total remuneration of the members of the key management personnel in 2022 amounted to KM 1,005 thousand, out of which KM 631 thousand was related to salaries and other remuneration and KM 374 thousand to taxes and contributions (in 2021 out of total amount of KM 918 thousand the amount of KM 574 thousand was related to salaries and other remuneration and KM 344 thousand was related to taxes and contributions).

36. OFF-BALANCE SHEET DEPOSITS

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

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

Off-balance sheet items consist of:

In thousands of KM	31 December 2022	31 December 2021
Deposits of the Council of Ministers of BH for the budget of BH institutions	197,946	1,567
Deposits of the Council of Ministers of BH for the servicing of foreign debt	9,367	6,923
Other deposits of the Council of Ministers of BH	294	271
Deposits of the Council of Ministers of BH on the basis of succession	47	44
Total	207,654	8,805
Funds of the BH Deposit Insurance Agency	20,985	40,910
Total	20,985	40,910
Deposit accounts of domestic banks	18,537	7,628
Deposits - Retirement allowance from Germany	348	72
Total	18,885	7,700
TOTAL	247,524	57,415

BH Ministry of Finance and Treasury is the institution that acts on behalf of the Council of Ministers of BH and state in deposit management and coordination as presented in the table. As at 31 December 2022 the total of these funds amount to KM 207,654 thousand (2021: KM 8,805 thousand).

36. OFF-BALANCE SHEET DEPOSITS (CONTINUED)

Residents' investments related to securities

The Central Bank enabled the BH Deposit Insurance Agency to invest in securities by opening accounts (cash and custody accounts) in the name of the Central Bank. All transactions on these accounts are performed between the BH Deposit Insurance Agency and its Asset Manager. The Central Bank does not charge any interest on such accounts.

37. BH MEMBERSHIP WITH THE IMF

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 the fiscal agent is specific due to currency board arrangement. By performing the function of fiscal agent defined by the Law on the Central Bank and by the Law on the borrowing, debt and guarantees in Bosnia and Herzegovina, the Central Bank is not obliged in any way to pay any debt of BH nor can be attributed to pay such debt nor its foreign currency reserves can in no way be considered as a guarantee for the payment of such debt. 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.

Special Drawing Rights with the IMF are demand funds denominated in SDR on the account opened with the IMF for the BH. The Central Bank holds Special Drawing Rights as a part of its foreign currency reserve management function. These funds are interest-bearing for the Central Bank.

IMF account No. 1 is the IMF account with the Central Bank that is used for transactions with the IMF related to utilization and repayment of IMF loans. IMF account No. 2 is the IMF account with the Central Bank that is used by the IMF for receipts and administrative disbursements in KM on Bosnia and Herzegovina territory. These accounts are part of the Central Bank's liabilities and are denominated in KM.

The quota balance is a specific type of asset which represents BH's subscription as a member of the IMF, denominated in SDRs. The quota represents BH's voting powers in the IMF, the limits to access to financial resources of the IMF and a BH's share in the allocation of SDRs which are the IMF's unit of account.

Promissory notes are issued by the Ministry of Finance and Treasury of BH and are substituted for KM. These securities are payable on demand by the IMF.

SDR allocation is also interest-bearing. Ministry of Finance and Treasury of BH pays interest on Special Drawing Rights allocation.

Promissory notes account, 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 per year, at the end of the IMF's financial year (30 April), all IMF currency holding are revalued based on the prevailing SDR exchange rate. These valuation adjustments are included in account balances stated.

37. BH MEMBERSHIP WITH THE IMF (CONTINUED)

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

In thousands of KM

	31 December 2022	31 December 2021
Quota	649,867	641,864
Special Drawing Rights with the IMF	149	1,881
TOTAL ASSETS	650,016	643,745
IMF account No.1	1,625	1,605
IMF account No.2	643	637
Securities	1,543,253	1,562,617
SDR allocation	1,017,117	1,004,591
Accrued interest on SDR allocation	4,669	92
Accounts of payable charges	5,610	1,627
TOTAL LIABILITIES	2,572,917	2,571,169
BH NET POSITION WITH THE IMF	1,922,901	1,927,424

As at reporting dates, BH quota with the IMF amount to SDR 265,200 thousand. The quota does not earn interest.

38. DOMESTIC PAYMENT AND SETTLEMENT SYSTEMS

On the basis of the Law on the Central Bank, the Central Bank has established the systems by which interbank payments in KM in BH are performed.

Since January 2001, the interbank clearing and settlement systems are organized through two payment systems owned and administered by the Central Bank. Those are Real-Time Gross Settlement (RTGS) and Giro Clearing system (GC).

RTGS is a system through which real-time payment orders are settled through settlement accounts that participants have opened with the Central Bank. All the banks licenced to perform payment operations are participants, as well as the Central Bank. Settlement is final and irrevocable at the moment that settlement account of ordering bank is debited with the same amount that beneficiary's bank settlement account is credited in RTGS. Transactions processed through system are above KM 10 thousand, and its use for lower amounts is optional.

The GC System is an interbank clearing system (bilateral and multilateral) for transactions in the amounts lower or equal to KM 10 thousand. The settlement of net positions of participants in GC system is carried out through settlement accounts in RTGS as well as settlement of transactions of legal persons acting as clearing agents, such as card transaction operators. Participants of the system are banks licenced to perform payment operations that are RTGS participants, as well as the Central Bank. The system is adjusted to SEPA standard, i.e., ISO 20022. The clearing of payment orders of all the GC participants is carried out by defining the net position of each individual participant as a result of the settlement of all credits and debits of participants for each clearing cycle.

38. DOMESTIC PAYMENT AND SETTLEMENT SYSTEMS (CONTUNUED)

Credit risk

Each participant in the payment systems is obliged to provide funds on its settlement account in RTGS prior to settlement of payment orders.

Pursuant to the role of the Central Bank as defined by the Law on the Central Bank, the Central Bank is not allowed to provide any credits to RTGS and GC System participants which would provide liquidity to the system in any form.

Operational risk

In order to minimize the operational risk of the smooth functioning of payment systems, Operational Rules for the RTGS and GC System have been issued, as accompanying Decisions setting minimum security standards for the functioning of the system.

Relevant security objectives, policies and procedures aim to ensure security measures and features. The systems and networks are operated according to established objectives and policies. The security objectives and policies are reviewed periodically. Each direct participant is also required to have appropriate security measures and controls for processing payments.

The Central Bank has defined the following Contingency Settlement Procedures:

- **Contingency plans and measures:** The Central Bank has defined contingency measures in order to ensure continuity of reliable, correct and lawful operation of the payment and settlement systems in the event of disruption to the regular payment and settlement system, or other contingency events.
- **Backup system in primary location and DR location:** To support the primary location for the payment systems with redundant systems (if case of system falling, switching to another one on the primary location is done), the Central Bank has also established functional DR (Disaster Recovery) system located in Main Bank in Banja Luka.

Oversight and development of payment systems

In 2022, the Central Bank has adopted regulations for the payment systems oversight. With the payment systems oversight function the Central Bank is performing payment systems monitoring, compliance evaluation of the payment systems in relation to the principles for the payment systems functioning applied by the Central Bank, as well as regulations of other relevant international institutions which regulate the requirements of the payment systems oversight. The Central Bank applies principles and responsibilities defined in "The Principles of Financial Markets Infrastructure" adopted by the Committee on Payments and Settlements systems of the BIS and the International Organization of Securities Commissions (IOSCO). Evaluation compliance activities and system monitoring promote security and efficiency of payment systems and undisturbed performance of interbank payment operations in BH providing directly support to the maintenance of financial stability in BH by the Central Bank.

Also, through development function, the Central Bank actively participates in preparation and implementation phases related to innovations in payment systems and analyses their impact on BH economy and the impact on public policy objectives of secure and efficient payment systems.

39. EVENTS AFTER THE REPORTING PERIOD

The Presidency of BH has not appointed new Governing Board members of the Central Bank up to date of the approval of these financial statements.

From 1 January 2023, the remuneration rate of 25 basis points is calculated and paid out for the required reserve funds generated from the domestic currency base, while the remuneration of 10 basis points is calculated and paid on required reserve funds generated from foreign currencies and domestic currency with currency clause basis by the Central Bank. The remuneration is not calculated for the amounts exceeding required reserves.

This change was implemented in order to harmonize with the ECB's policy and to mitigate the impact of the interest rate growth on the ECB deposit facility rate on the operations of banks in BH.

Except from the above mentioned, no adjusting or non-adjusting events have occurred between 31 December 2022 and the date of authorization of these financial statements.