CENTRAL BANK OF BOSNIA AND HERZEGOVINA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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 and for overseeing the 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 approved by the Governing Board and submitted to the Parliamentary Assembly of Bosnia and Herzegovina and the Presidency of Bosnia and Herzegovina.

These 2021 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 29 March 2022.

Senad Softić, Ph.D.
Chairman of the Governing Board
Governor

Vesna Paćuka, MA
Head of Accounting and Finance Department

Ernst & Young d.o.o.
Vrbanja 1 (SCC – Sarajevo City Center)
71000 Sarajevo
Bosna i Hercegovina

Tel: +387 33 870 014

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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 2021, 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 2021, 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.

Other Matters

Financial statements of the Central Bank for the year ended 31 December 2020 were audited by another auditor who expressed an unmodified opinion on financial statements dated 29 March 2021.

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.

Ernst & Young d.o.o.
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Bosna i Hercegovina

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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, 29 March 2022

DRUŠTVO ZA REVIZIJU
ERNST & YOUNG
SARAJEVO, d.o.o.

Tarik Alijagić, licensed auditor

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

Sarajevo, 29 March 2022

ERNST & YOUNG
Revizija, poslovno
svetovanje d.o.o., Ljubljana 3

Janez Uranič, partner

Ernst & Young d.o.o. Ljubljana
Dunajska cesta 111
1000 Ljubljana
Republic of Slovenia

Ljubljana, 29 March 2022

This version of the financial report 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 report takes precedence over this translation.

STATEMENT OF FINANCIAL POSITION

In thousands of KM	Note	31 December 2021	As at 31 December 2020
ASSETS			
Cash in foreign currencies	7	469,585	142,202
Deposits with foreign banks	8	3,945,097	3,832,072
Special Drawing Rights with the IMF	9, 35	1,881	879
Debt instruments at fair value through other comprehensive income	10	11,629,592	9,601,315
Monetary gold	11	301,987	291,561
Other assets	12	16,927	12,671
Property and equipment	13	50,177	48,560
Intangible assets	14	983	1,234
Other investments	15	27,813	27,813
TOTAL ASSETS		**16,444,042**	**13,958,307**
LIABILITIES AND EQUITY			
LIABILITIES			
Banknotes and coins in circulation	16	6,923,818	6,172,457
Deposits from banks	17	7,219,617	5,901,142
Deposits from the Government and other public institutions	18	1,429,596	897,044
Provisions	19	1,406	1,414
Other liabilities	20	8,162	3,919
Total liabilities		**15,582,599**	**12,975,976**
EQUITY			
Initial capital		25,000	25,000
Reserves		836,443	957,331
Total equity	31	**861,443**	**982,331**
TOTAL LIABILITIES AND EQUITY		**16,444,042**	**13,958,307**

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 2021	2020
Interest income		55,568	51,721
Interest expense		(45,420)	(32,197)
NET INTEREST INCOME	21	**10,148**	**19,524**
Fee and commission income		20,970	18,061
Fee and commission expenses		(813)	(689)
NET FEE AND COMMISSION INCOME	22	**20,157**	**17,372**
Net realised gains from sale of debt instruments at fair value through other comprehensive income	23	4,949	1,578
Net foreign exchange (losses)	24	(486)	(184)
Net impairment on financial assets	25	(426)	(410)
Other income	26	1,402	245
OPERATING INCOME		**35,744**	**38,125**
Personnel expenses	27	(19,669)	(18,578)
Administrative and other operating expenses	28	(6,514)	(6,252)
Costs of production of banknotes and coins	29	(4,143)	(2,855)
Depreciation and amortisation charge	13, 14	(2,521)	(2,532)
OPERATING EXPENSES		**(32,847)**	**(30,217)**
NET PROFIT FOR THE YEAR	30	**2,897**	**7,908**

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 2021	2020
NET PROFIT FOR THE YEAR		2,897	7,908
Other comprehensive (loss) / income			
Items that are or may be reclassified subsequently to profit or loss:			
Debt instruments at fair value through other comprehensive income			
Net change in fair value during the year	10	(129,592)	81,673
Net change in provisions for expected credit losses recognized in profit or loss during the year	6.1.1., 25	330	314
Reclassification to profit or loss from sale of debt instruments	23	(4,949)	(1,578)
		(134,211)	**80,409**
Monetary gold			
Net change in fair value during the year	11	10,426	37,473
		10,426	**37,473**
Total other comprehensive (loss) / income		(123,785)	117,882
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR		(120,888)	125,790

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 2021	25,000	293,125	87,703	31,300	545,203	957,331	982,331
Total comprehensive (loss) for the year	-	(134,211)	10,426	-	2,897	(120,888)	(120,888)
Net profit for the year (Note 30)	-	-	-	-	2,897	2,897	2,897
Other comprehensive (loss)	-	(134,211)	10,426	-	-	(123,785)	(123,785)
Net unrealised negative changes in fair value for debt instruments	-	*(129,592)*	-	-	-	*(129,592)*	*(129,592)*
Net increase of provisions for expected credit losses for debt instruments recognised in profit or loss	-	*330*	-	-	-	*330*	*330*
Net realised positive changes in fair value for debt instruments sold transferred to profit or loss	-	*(4,949)*	-	-	-	*(4,949)*	*(4,949)*
Net unrealised positive changes in fair value for monetary gold	-	-	*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 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 2020	**25,000**	**212,716**	**50,230**	**31,300**	**537,295**	**831,541**	**856,541**
Total comprehensive income for the year	**-**	**80,409**	**37,473**	**-**	**7,908**	**125,790**	**125,790**
Net profit for the year (Note 30)	-	-	-	-	7,908	7,908	7,908
Other comprehensive income	-	80,409	37,473	-	-	117,882	117,882
Net unrealised positive changes in fair value for debt instruments	-	*81,673*	-	-	-	*81,673*	*81,673*
Net increase of provisions for expected credit losses for debt instruments recognised in profit or loss	-	*314*	-	-	-	*314*	*314*
Net realised positive changes in fair value for debt instruments sold transferred to profit or loss	-	*(1,578)*	-	-	-	*(1,578)*	*(1,578)*
Net unrealised positive changes in fair value for monetary gold	-	-	*37,473*	-	-	*37,473*	*37,473*
Balance at 31 December 2020	**25,000**	**293,125**	**87,703**	**31,300**	**545,203**	**957,331**	**982,331**

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

STATEMENT OF CASH FLOWS

	Note	For the year ended 31 December 2021	2020
In thousands of KM			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		**2,897**	**7,908**
Adjusted for:			
Interest income	21	(55,568)	(51,721)
Interest expense	21	45,420	32,197
Net impairment on financial assets	25	426	410
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	23	(4,949)	(1,578)
Net foreign exchange losses	24	486	184
Income from grants	26	(6)	(50)
Provisions, net increase	19, 27	171	151
Net (gains) / losses on disposal of property, equipment and intangible assets		(56)	2
Dividend income recognized in profit or loss	26	(1,297)	-
Depreciation and amortisation charge	13, 14	2,521	2,532
Net cash flows used in operating activities before changes in operating assets and liabilities		**(9,955)**	**(9,965)**
Changes in operating assets and liabilities			
Decrease / (increase) in term deposits with foreign banks		635,115	(139,779)
(Increase) in debt instruments		(2,157,869)	(602,229)
(Increase) in other assets		(3,975)	(1,391)
Increase in banknotes and coins in circulation	16	751,361	972,541
Increase in deposits from banks		1,320,973	158,825
Increase in deposits from the Government and other public institutions		532,552	16,369
Increase / (decrease) in other liabilities		4,344	(197)
Payments from provisions	19	(179)	(131)
Interest received		53,070	50,419
Interest paid		(45,100)	(31,135)
Net cash from operating activities		**1,080,337**	**413,327**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from property and equipment sale		57	-
Purchases of property, equipment and intangible assets	13, 14	(3,888)	(2,451)
Dividends received		1,297	-
Net cash used in investing activities		**(2,534)**	**(2,451)**

STATEMENT OF CASH FLOWS (CONTINUED)

In thousands of KM	Note	For the year ended 31 December 2021	2020
Net effects from impairment for expected credit losses on cash and cash equivalents		(184)	(45)
Net effects of exchange rates on cash and cash equivalents		(581)	(115)
Net increase in cash and cash equivalents		**1,077,038**	**410,716**
Cash and cash equivalents at the beginning of the year		**2,909,688**	**2,498,972**
Cash and cash equivalents at the end of the year	32	**3,986,726**	**2,909,688**

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

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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, within the territory of BH, at the official exchange rate of KM to EUR as KM 1.95583 = EUR 1, prescribed by the Law on the Central Bank.

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 the state and public institutions of BH and from commercial 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 objective 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 (from 30 April 2020)
Dragan Kulina Ph.D.	Member (from 30 April 2020)
Danijela Martinović Ph.D.	Member (from 30 April 2020)
Ankica Kolobarić M.Sc.	Member (until 30 April 2020)

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 of the Central Bank and its internal acts.

The Management

Senad Softić Ph.D.	Governor
Ernadina Bajrović M.Sc.	Vice Governor
Milica Lakić Ph.D.	Vice Governor (until 11 August 2021)
Željko Marić Ph.D.	Vice Governor (from 16 August 2021)
Želimira Raspudić	Vice Governor (until 30 April 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 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 of the internal control system, supervision of the compliance function and supervision of the internal audit function.

As at 31 August 2021, the members of the Audit Committee were:

The Audit Committee

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

Additional information about Central Bank key management and the Audit Committee members is disclosed in Note 37.

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 about circumstances caused by the global pandemic of COVID-19 that affected Central Bank's operations and activities in 2021 is disclosed in Note 3.13. These circumstances did not affect the appropriateness of the going concern assumption of the Central Bank.

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 of 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments had no significant 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 (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. The IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the pandemic COVID-19. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the pandemic COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

The amendment had no significant 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 2021 and have not been previously adopted by the Central Bank:

- 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 recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized 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 Central Bank expects that the amendments will not have a significant impact on the Central Bank's financial statements.

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

The amendments were initially effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. However, in response to the pandemic COVID-19, the IASB has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies to determine whether in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current.

2. BASIS OF PREPARATION (CONTINUED)

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

The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements related to measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

In November 2021, the IASB issued an exposure draft, which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the IASB proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need to be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The IASB has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. The Central Bank expects that the amendments will not have a significant impact on the Central Bank's financial statements.

- 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 Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

- IAS 16 Property, Plant and Equipment (Amendments) prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in the statement of profit or loss.

- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments) specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.

- 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 Central Bank expects that the amendments will not have a significant impact on the Central Bank's financial statements.

- 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 IASB 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 pandemic COVID-19.

2. BASIS OF PREPARATION (CONTINUED)

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

Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on 30 June 2022, provided the other conditions for applying the practical expedient are met. The Central Bank expects that the amendment will not have a significant impact on the Central Bank's financial statements.

- 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 concept 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 Central Bank expects that the amendments will not have a significant 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 uncertainty measurement. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The Central Bank expects that the amendments will not have a significant 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. In May 2021, the IASB issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. 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 Central Bank expects that the amendments will not have a significant impact on the Central Bank's financial statements.

2.6. Reclassification of financial information

For the purpose of fair and objective presentation of financial information in 2021, certain comparative balances in primary financial statements and certain notes have been reclassified to provide the comparability of financial information. These changes have no significant impact on the Central Bank's overall financial performance and financial position of the Central Bank for the comparative period. All changes have been made only for the purpose of improved 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 amortized 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 categorised 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 asset 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. As at reporting dates, the Central Bank's objective is to collect both contractual cash flows and cash flows arising from the sale for all debt instruments.

The goals of these models are set to generate contractual cash flows and to maintain the liquidity of the Central Bank in order to protect the Central Bank`s currency board.

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 this best reflects 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 amortized cost or financial assets measured at fair value through other comprehensive income.

Financial assets are measured at amortized 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 amortized 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 recognized in the statement of financial position only when the Central Bank becomes one of a 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, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized 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 amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus 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 a financial assets is the amortized cost of a financial assets before adjustment for any expected credit losses.
The effective interest rate method is the method used in the calculation of the amortized cost (gross carrying amount) of financial assets or financial liabilities and allocation and recognition of interest income or expense in profit or loss over the certain period.

A Financial assets

Financial assets at amortized cost

After initial recognition, financial assets are measured at amortized cost using the effective interest rate method on the gross carrying amount of the asset. Effects of subsequent measurement of financial assets at amortized cost are recognised in profit or loss as interest income or interest expense arising from based on the effects of the 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 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 asset 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 the negative interest rates is 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 15).

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

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 amortized cost i.e. deposits with foreign banks 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 are calculated and presented in the statement of financial position as follows:

Financial assets measured at amortized 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 and does not reduce the carrying amount of the financial assets in the statement of financial position.
Impairment gains and losses are 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 amortized 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 amortized 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 derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset 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 recognized 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 a financial asset. Monetary gold is initially recognized at fair value, including transaction cost directly attributable to the acquisition of the 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 recognized 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 amortization 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 expensed as 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 and subsequently subject to the applicable depreciation rates.

Depreciation and amortization 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 amortization rates during 2021 and 2020 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 recognized 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 recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized 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 recognized.

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 recognized 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 recognized 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 amortized cost. Deposits from banks include domestic commercial 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 institutions and agencies, both state and entity level.

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 recognized 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 recognized 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 amortized 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 and arises 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 is recognized in the profit or loss as the effects of negative interest rates on financial liabilities within the interest income and arises from deposits from domestic commercial banks due to the reserve requirement policy of the Central Bank applied.

Fee and commission income and expenses

Fee and commission income is earned from the services provided by the Central Bank and is recognized 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 recognized 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 exchange differences

On 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.

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

Middle exchange rates of most relevant currencies are provided below:

Middle exchange rate:	31 December 2021	31 December 2020
	KM	KM
EUR	1.95583	1.95583
CHF	1.887320	1.801446
GBP	2.330311	2.165757
USD	1.725631	1.592566
XDR	2.420301	2.315409

Dividend income

Dividend income from equity instruments is recognized 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 15 and 26).

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 recognized 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 recognized as deferred costs which are part of Central Bank's other assets and are subsequently amortized 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 laws on corporate income tax (both Federation of Bosnia and Herzegovina and Republic of Srpska), 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 state institutions and agencies, and of commercial banks, for which the Central Bank acts as an agent (Note 34).

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 35).

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 continually. 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 a 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 recognized 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 2021. Conditions in the future may be different from those that resulted in the financial information disclosed in these financial statements. The Management does consider the current uncertainty regarding the impact of global pandemic of COVID-19 in respect of potential material impact on Central Bank's overall financial position and performance.

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 amortized 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. Economic consequences of the global pandemic COVID-19 and their impact on the financial statements of the Central Bank in 2021

The global pandemic of coronavirus COVID-19 and its economic consequences continued to make the Central Bank's business operations more difficult in 2021. The Central Bank has been continuously undertaking all allowed possibilities directed exclusively on the protection and integrity of the currency board arrangement in accordance with the Law on the Central Bank.

The circumstances in which the Central Bank has performed its operations, on the side of domestic business environment as well as on the side of international business environment, have affected the reported amounts on assets, liabilities, income and expenses of the Central Bank in 2021.

In 2021 the monetary liabilities of the Central Bank have recorded the annual increase which is also the biggest increase in monetary liabilities from the establishment of the Central Bank. The annual increase in monetary liabilities of the Central Bank was determined by the reduced credit activity of commercial banks, increased international borrowings in BH and unconditional remittance of funds to BH by the international financial institutions. These circumstances, have additionally negatively exposed the process of foreign currency investments to volatile and unfavourable conditions in international business environment as well as increased financial risks.

The trend of high levels of excess liquidity in banking system of BH has also continued during 2021. The Central Bank has continued with implementation of a project regarding required reserve policy framework innovation as the only monetary policy instrument available under the Law on the Central Bank. During 2021, a negative required reserve remuneration was introduced regarding the foreign currency base and domestic currency with currency clause base. This measure aims to encourage the holding of deposits in domestic currency in commercial banks, i.e. to discourage the holding of deposits in EUR currency. This measure is also aimed at strengthening the domestic currency, thereby strengthening its stability. However, a significant accumulation of the amounts exceeding the required reserve on the accounts of commercial banks with the Central Bank continued. As at 31 December 2021 the amounts exceeding the required reserve of commercial banks are significantly higher than the required reserves themselves. For more information, see the following Notes:

Note	Title
17	Deposits from banks
21	Net interest income

During 2021, the bonds of Republic of Srpska have been sold in the amount of KM 586,749 thousand (EUR 300,000 thousand) on the London Stock Exchange on the basis of international borrowings. Due to this borrowing the Central Bank has sold KM for EUR on the request of the commercial banks. This borrowing further increased the monetary liabilities of the Central Bank.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Economic consequences of the global pandemic COVID-19 and their impact on the financial statements of the Central Bank in 2021 (continued)

The practice of holding funds on the Central Bank's accounts instead of withdrawing these funds for the intended purpose also continued by the depositors of the Central Bank. Together with accumulating funds from the commercial banks this additionally increased the monetary liabilities of the Central Bank and negatively affected its financial performance.

During 2021, significant funds have been remitted to Bosnia and Herzegovina by the international financial institutions, as follows:

Allocation of Special Drawing Rights: Based on the decision of the IMF Board of Governors, Bosnia and Hercegovina has been remitted funds in the amount of KM 602,540 thousand on the basis of the Special Drawing Rights (SDR) allocation. These funds have been remitted as a measure to mitigate the effects of the crisis caused by the pandemic of coronavirus COVID-19. The Central Bank has orderly performed its legal role of depository, banker and fiscal agent of Bosnia and Herzegovina.

The European Commission Funds: During 2021, the European Commission remitted funds to Bosnia and Herzegovina in the amount of KM 243,112 thousand (EUR 124,301 thousand) in accordance with the Credit line agreement between European Union and Bosnia and Herzegovina. The remitted funds represent the first tranche of the macro financial assistance based on the Credit line agreement between European Union and Bosnia and Herzegovina. The Central Bank has transferred the remitted funds to the subaccounts of Federation of Bosnia and Herzegovina, Republic of Srpska and Brčko District, in accordance with the percentages set out in the Memorandum of Understanding between European Union and Bosnia and Herzegovina. As at 31 December 2021, all funds based on this agreement have not been withdrawn.

For more information on the above circumstances related to the Central Bank's depositors see following Notes:

Note	Title
18	Deposits from the Government and other public institutions
35	BH membership with the IMF

During 2021, the international business environment, in which the Central Bank is investing its foreign currency reserves, continued to be the environment of negative interest rates and yields on Eurozone countries debt instruments, as well as the environment of increased volatility of the debt instruments' market prices. Although the Eurozone economy has gradually begun to open up due to improved pandemic situation and substantial progress in the vaccination process, the continuation of the pandemic, the spread of new variants of virus and its consequences on economic and financial conditions still remain a source of risk, uncertainty and high volatility in the surrounding environment. The conditions on the Eurozone international financial market are still under the dominant impact of the European Central Bank expansive monetary policy. The European Central Bank's key interest rates remained unchanged in 2021 with uncertain expectations of their change in the future period.

In addition, by remittance of the funds based on the SDR allocation and the macro-financial assistance, together with significant accumulation of the amounts exceeding the required reserves of the commercial banks, the Central Bank's foreign currency reserves dominantly became additionally exposed to the unfavourable investment conditions on the Eurozone international financial market.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Economic consequences of the global pandemic COVID-19 and their impact on the financial statements of the Central Bank in 2021 (continued)

During 2021, the Central Bank has actively adjusted the foreign currency investment process to the circumstances of unusual and significant increase of monetary liabilities, as well as to the existing conditions for foreign currency investments within the legally prescribed investment framework. These circumstances, both on the side of monetary liabilities and in terms of difficult possibilities for foreign currency reserves investments, had negative synergistic effect on the financial performance of the Central Bank in 2021. At any moment, the coverage of monetary liabilities with net foreign currency reserves was the primary goal of the Central Bank, which has been fully accomplished. For more information see the following Notes:

Note	Title
4	Currency board arrangement
6	Financial risk management
10	Debt instruments at fair value through other comprehensive income
21	Net interest income

4. 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. Article 31 of 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 2021	31 December 2020
Gross foreign currency reserves	**16,348,142**	**13,868,029**
Cash in foreign currencies	469,585	142,202
Deposits with foreign banks	3,945,097	3,832,072
Special Drawing Rights with the IMF	1,881	879
Debt instruments	11,629,592	9,601,315
Monetary gold	301,987	291,561
Liabilities to non-residents	**2,331**	**1,688**
Net foreign currency reserves		
(Gross foreign currency reserves less liabilities to non-residents)	**16,345,811**	**13,866,341**
Monetary liabilities	**15,573,031**	**12,970,643**
Banknotes and coins in circulation	6,923,818	6,172,457
Deposits from banks	7,219,617	5,901,142
Deposits from the Government and other public institutions	1,429,596	897,044
NET FOREIGN ASSETS		
(Net foreign currency reserves less monetary liabilities)	**772,780**	**895,698**

Net foreign assets are the Central Bank's main financial indicator of achieving and maintaining the stability of domestic currency in BH and its main financial performance measure. Being the part of foreign currency reserves, the net foreign assets cannot be assumed as the Central Bank's asset available for fiscal purposes and the use of the Central Bank's foreign currency reserves for fiscal purposes is explicitly prohibited by the Law on the Central Bank. Net foreign assets are the amount that guarantees the stability of domestic currency that is monetary stability and absorbs potential financial risks arising from gross currency reserves management.

As disclosed in Note 3.13, the difficult circumstances for foreign currency reserves investments have been dominantly determined with significant increase in monetary liabilities in 2021. Increase in monetary liabilities, caused by foreign borrowings in Bosnia and Herzegovina, as well as reduced commercial banks' credit activities, exposed the investment of the Central Bank's foreign currency reserves to volatile and unfavourable conditions at the international financial market which are amortized by net foreign assets.

4. CURRENCY BOARD ARRANGEMENT (CONTINUED)

During 2021, the oscillations in changes in the Central Bank's financial assets subsequently measured at fair value affected the amount of net foreign assets. More information on these changes is disclosed in Notes 10 and 11. More information on financial risks to which the Central Bank was exposed in foreign currency reserves management are disclosed in Note 6.

As at reporting dates, the Central Bank's capitalisation level ensured implementation of its functions prescribed by the Law on Central Bank. For more information see Note 31.

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

In thousands of KM

	31 December 2020			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Debt instruments	9,601,315	-	-	9,601,315
Monetary gold	291,561	-	-	291,561
TOTAL	**9,892,876**	**-**	**-**	**9,892,876**

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 2021	
	Carrying amount	Fair value
Financial assets		
Financial assets measured at amortized cost:		
Cash in foreign currencies	469,585	469,585
Deposits with foreign banks	3,945,097	3,936,151
Special Drawing Rights with the IMF	1,881	1,881
Other financial assets	3,349	3,349
	4,419,912	*4,410,966*
Financial assets at measured at fair value through other comprehensive income - cost choice:		
Other investments	27,813	27,813
	27,813	*27,813*
Total	4,447,725	4,438,779
Financial liabilities		
Financial liabilities measured at amortized cost:		
Banknotes and coins in circulation	6,923,818	6,172,457
Deposits from banks	7,219,617	7,203,407
Deposits from the Government and other public institutions	1,429,596	1,426,386
Other financial liabilities	8,023	8,023
Total	15,581,054	14,810,273

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

		31 December 2020
	Carrying amount	Fair value
Financial assets		
Financial assets measured at amortized cost:		
Cash in foreign currencies	142,202	142,202
Deposits with foreign banks	3,832,072	3,823,212
Special Drawing Rights with the IMF	879	879
Other financial assets	2,496	2,496
	3,977,649	*3,968,789*
Financial assets at measured at fair value through other comprehensive income - cost choice:		
Other investments	27,813	27,813
	27,813	*27,813*
Total	**4,005,462**	**3,996,602**
Financial liabilities		
Financial liabilities measured at amortized cost:		
Banknotes and coins in circulation	6,172,457	6,172,457
Deposits from banks	5,901,142	5,887,547
Deposits from the Government and other public institutions	897,044	894,977
Other financial liabilities	3,759	3,759
Total	**12,974,402**	**12,958,740**

The Management considers that the carrying amounts of cash in foreign currencies, special drawing rights with the IMF, other financial assets, banknotes and coins in circulation and other financial liabilities recognized in the financial statements approximate their fair values as at reporting dates.

As at reporting dates, fair values of financial assets and financial liabilities not measured at fair value are included in Level 2 category and have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. As discount rate, the Central Bank has used weighted average interest rate on corporate deposits for whole banking market in BH.

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,
- Other financial assets (domestic banks' receivables, employees' loans and other receivables) and
- Other investments.

Due to the global pandemic of COVID-19 at the beginning of March 2020, the European Central Bank has taken further non-standard monetary policy measures, with the aim of stabilizing the current conditions on financial markets. However, during the middle of 2021, it has become clear that market yields will not remain at a very low level for a long time. For the reason of currency board stability, the Central Bank has significantly shortened the modified duration of the debt instruments portfolio and thus reduced its exposure to the interest rate risk. Certain adjustments were made to the credit risk limits, whereby it was taken into consideration that there was no significant increase in credit risk, bearing in mind that the national central banks from the ECB's system are repurchasing the debt instruments of the Eurozone countries.

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 34 and 35).

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 and
- Debt instruments at fair value through other comprehensive income,
- 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 the 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 the 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 recognized 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 the Stage 2.

The Central Bank, based on its analysis, can determine the allocation of every individual financial asset into the 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 risk has occurred if the payment is delayed for 30 days or more, where the financial asset 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 are 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 book value of the financial asset, i.e. the carrying amount at the date of the initial recognition/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 the 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 impairment provisions 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 recognize 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

				2021				2020
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1. Deposits with foreign banks								
As at 1 January	**807**	**-**	**-**	**807**	**724**	**-**	**-**	**724**
Increases in expected credit losses	4,734	-	-	4,734	4,620	-	-	4,620
Releases of expected credit losses	(179)	-	-	(179)	*(1,078)*	-	-	(1,078)
Releases due to derecognition of term deposits	(4,449)	-	-	(4,449)	(3,459)	-	-	(3,459)
As at 31 December	**913**	**-**	**-**	**913**	**807**	**-**	**-**	**807**
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	**1,598**	**-**	**-**	**1,598**	**1,343**	**-**	**-**	**1,343**
Increases in expected credit losses	1,130	-	-	1,130	713	-	-	713
Releases of expected credit losses	(150)	-	-	(150)	(74)	-	-	(74)
Releases due to debt instruments matured	(650)	-	-	(650)	(325)	-	-	(325)
Net increase during the year	*330*	-	-	*330*	*314*	-	-	*314*
Releases due to debt instruments sold	(142)			(142)	(59)	-	-	(59)
As at 31 December	**1,786**	**-**	**-**	**1,786**	**1,598**	**-**	**-**	**1,598**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.1. Credit risk exposure (continued)

In thousands of KM				2021				2020
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
4. Other financial assets								
As at 1 January	5	-	613	618	5	-	600	605
Increases in expected credit losses	8	-	2	10	7	-	13	20
Releases of expected credit losses	(7)	-	(13)	(20)	(7)	-	-	(7)
As at 31 December	6	-	602	608	5	-	613	618
Total opening balance at 1 January	2,410	-	613	3,023	2,072	-	600	2,672
Net increase / (release) in expected credit losses	295	-	(11)	284	338	-	13	351
Total closing balance at 31 December	2,705	-	602	3,307	2,410	-	613	3,023

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 recognized:

In thousands of KM	31 December 2021				31 December 2020			
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	469,585	-	-	469,585	142,202	-	-	142,202
Impairment	-	-	-	-	-	-	-	-
Carrying amount	**469,585**	**-**	**-**	**469,585**	**142,202**	**-**	**-**	**142,202**
Deposits with foreign banks								
Gross carrying amount	3,946,010	-	-	3,946,010	3,832,879	-	-	3,832,879
Impairment	(913)	-	-	(913)	(807)	-	-	(807)
Carrying amount	**3,945,097**	**-**	**-**	**3,945,097**	**3,832,072**	**-**	**-**	**3,832,072**
Special Drawing Rights with the IMF								
Gross carrying amount	1,881	-	-	1,881	879	-	-	879
Impairment	-	-	-	-	-	-	-	-
Carrying amount	**1,881**	**-**	**-**	**1,881**	**879**	**-**	**-**	**879**
Debt instruments at fair value through other comprehensive income								
Gross carrying amount	11,629,592	-	-	11,629,592	9,601,315	-	-	9,601,315
Provisions for expected credit losses (recognized in other comprehensive income)	1,786	-	-	1,786	1,598	-	-	1,598
Carrying amount	**11,629,592**	**-**	**-**	**11,629,592**	**9,601,315**	**-**	**-**	**9,601,315**
Other financial assets								
Gross carrying amount	3,355	-	602	3,957	2,501	-	613	3,114
Impairment	(6)		(602)	(608)	(5)	-	(613)	(618)
Carrying amount	**3,349**	**-**	**-**	**3,349**	**2,496**	**-**	**-**	**2,496**

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 2021	31 December 2020
Carrying amounts		
Monetary gold	301,987	291,561
Other investments	27,813	27,813
TOTAL	**329,800**	**319,374**

The Central Bank does not hold any collateral or other credit enhancements for the credit risk coverage. As at 31 December 2021 the Central Bank does not have any assets that are past due and does have impaired assets in the amount of KM 602 thousand (31 December 2020: The Central Bank did not have any assets that are past due and had impaired assets in the amount of KM 613 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 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[1]	-	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**	**11,629,592[2]**	**301,987**	**3,349**	**27,813**	**16,379,304**

[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 2020

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	-	1,743,431	-	2,164,263	-	-	-	3,907,694
AA+	-	-	-	1,283,772	-	-	-	1,283,772
AA	-	722,926	-	3,170,119	-	-	-	3,893,045
AA-	-	-	-	1,269,603	-	-	-	1,269,603
A+	-	391,166	-	-	-	-	-	391,166
A	-	875,876	-	-	-	-	-	875,876
A-	-	-	-	1,095,368	-	-	-	1,095,368
II[3]	-	410	879	-	291,561	-	27,813	320,663
BBB+	-	99,070	-	-	-	-	-	99,070
BBB	-	-	-	-	-	-	-	-
BBB-	-	-	-	618,190	-	-	-	618,190
Unrated	142,202	-	-	-	-	3,114	-	145,316
Total	**142,202**	**3,832,879**	**879**	**9,601,315**	**291,561**	**3,114**	**27,813**	**13,899,763**
Impairment	-	(807)	-	-	-	(618)	-	(1,425)
TOTAL	**142,202**	**3,832,072**	**879**	**9,601,315[4]**	**291,561**	**2,496**	**27,813**	**13,898,338**

[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 provides 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 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**

31 December 2020

In thousands of KM	EU countries	Non-EU member countries	Bosnia and Herzegovina	Total
Cash in foreign currencies	-	-	142,202	142,202
Deposits with foreign banks	2,865,493	967,386	-	3,832,879
Special Drawing Rights with the IMF	-	879	-	879
Debt instruments at fair value through other comprehensive income	9,601,315	-	-	9,601,315
Monetary gold	-	291,561	-	291,561
Other financial assets			3,114	3,114
Other investments	10	27,803		27,813
Total	**12,466,818**	**1,287,629**	**145,316**	**13,899,763**
			Impairment	**(1,425)**
			TOTAL	**13,898,338**

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 on risk.

For the purpose of quantifying the market risk effects on the 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% and 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 gold price risk, in foreign currency reserves portfolio are considered. As at 31 December 2021, 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 65,070 thousand (2020: KM 61,117 thousand), or 0.40% of the total financial assets (2020: 0.44% of the total financial assets).

VaR value as at 31 December 2021 and 31 December 2020 is 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 the monetary gold).

In thousands of KM	31 December 2021	31 December 2020
Interest rate risk	51,622	44,722
Risk of change in EUR price of the monetary gold	13,138	16,097
Foreign exchange risk	310	298
Total VaR	**65,070**	**61,117**

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

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

The Central Bank had the following foreign currency position as at 31 December 2021 and 31 December 2020:

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**

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.1. Foreign exchange risk (continued)

31 December 2020 In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Cash in foreign currencies	142,128	18	56	-	142,202
Deposits with foreign banks	3,821,811	1,101	9,160	-	3,832,072
Special Drawing Rights with the IMF	-	-	879	-	879
Debt instruments at fair value through other comprehensive income	9,601,315	-	-	-	9,601,315
Monetary gold	291,561	-	-	-	291,561
Other financial assets	24	-	-	2,472	2,496
Other investments	10	-	-	27,803	27,813
Total financial assets	**13,856,849**	**1,119**	**10,095**	**30,275**	**13,898,338**
Banknotes and coins in circulation	-	-	-	6,172,457	6,172,457
Deposits from banks	-	-	-	5,901,142	5,901,142
Deposits from the Government and other public institutions	-	-	-	897,044	897,044
Other financial liabilities	1,549	28	1	2,181	3,759
Total financial liabilities	**1,549**	**28**	**1**	**12,972,824**	**12,974,402**
NET FOREIGN EXCHANGE POSITION	**13,855,300**	**1,091**	**10,094**	**(12,942,549)**	**923,936**

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 debts instruments 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 2021 modified duration was shortened and amounts to 2.19 as at 31 December 2021 (31 December 2020: 3.40) 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 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 2021 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	-	-	-	-	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. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.2. Market risk (continued)

6.2.2. Interest rate risk (continued)

31 December 2020 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	-	-	-	-	142,202	142,202
Deposits with foreign banks	3,254,274	579,737	-	-	(1,939)	3,832,072
Special Drawing Rights with the IMF	879	-	-	-	-	879
Debt instruments at fair value through other comprehensive income	1,948,173	7,581,501	-	-	71,641	9,601,315
Monetary gold	-	-	-	-	291,561	291,561
Other financial assets	8	5		-	2,483	2,496
Other investments	-	-	-	-	27,813	27,813
Total financial assets	**5,203,334**	**8,161,243**	**-**	**-**	**533,761**	**13,898,338**
Banknotes and coins in circulation	-	-	-	-	6,172,457	6,172,457
Deposits from banks	3,109,052	-	-	-	2,792,090	5,901,142
Deposits from the Government and other public institutions	-	-	-	-	897,044	897,044
Other financial liabilities	-	-	-	-	3,759	3,759
Total financial liabilities	**3,109,052**	**-**	**-**	**-**	**9,865,350**	**12,974,402**
INTEREST RATE GAP	**2,094,282**	**8,161,243**	**-**	**-**	**(9,331,589)**	**923,936**

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 has been classified in the maturity period within three months.

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**

31 December 2020 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	6,172,457	-	-	-	-	6,172,457
Deposits from banks	5,901,142	-	-	-	-	5,901,142
Deposits from the Government and other public institutions	897,044	-	-	-	-	897,044
Other financial liabilities	3,759	-	-	-		3,759
TOTAL FINANCIAL LIABILITIES	**12,974,402**	**-**	**-**	**-**	**-**	**12,974,402**

7. CASH IN FOREIGN CURRENCIES

Cash in foreign currencies is 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 2021	31 December 2020
Cash in foreign currencies:		
EUR	469,548	142,128
USD	20	18
GBP	17	17
CHF	-	39
TOTAL	**469,585**	**142,202**

During 2021, the Central Bank bought cash in EUR currency in the amount of KM 293,375 thousand from the foreign bank.

8. DEPOSITS WITH FOREIGN BANKS

Deposits with foreign banks represent the Central Bank's invested foreign currency reserves held on the accounts with foreign banks and other financial institutions. Deposits with foreign banks include demand deposits and term deposits.

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

In thousands of KM	31 December 2021	31 December 2020
Term deposits:		
EUR	2,592,738	2,391,656
Impairment	(764)	(628)
Total	**2,591,974**	**2,391,028**
Demand deposits:		
EUR	1,349,790	1,430,953
GBP	2,202	2,080
USD	1,171	1,101
CHF	109	7,089
	1,353,272	**1,441,223**
Impairment	(149)	(179)
Total	**1,353,123**	**1,441,044**
TOTAL	**3,945,097**	**3,832,072**

8. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

During 2021 the average negative interest rates on term deposits denominated in EUR currency ranged from 0.64% p.a. to 0.50% p.a. (2020: from 0.60% p.a. to 0.33% p.a.). Negative interest rates on demand deposits denominated in EUR currency ranged from 0.90 % p.a. to 0.50% p.a. (2020: from 0.75% p.a. to 0.40% p.a.).

Deposits with foreign banks include negative accrued interest in the amount KM 1,387 thousand as at 31 December 2021 (2020: included negative accrued interest in the amount KM 1,939 thousand).

The average negative effective yield rate on deposits with foreign banks amounts to 0.54% for 2021 (2020: average negative effective yield rate amounted to 0.50%).

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

In thousands of KM	31 December 2021	31 December 2020
Up to one month	1,055,372	1,032,703
From one to two months	457,180	253,800
From two to three months	698,391	525,637
From three to four months	95,591	96,154
From four to twelve months	286,204	483,362
Total	**2,592,738**	**2,391,656**
Impairment	(764)	(628)
TOTAL	**2,591,974**	**2,391,028**

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 2021	31 December 2020
Foreign central banks	2,467,662	2,375,955
Foreign commercial banks	1,477,588	1,456,514
International financial institutions	760	410
Total	**3,946,010**	**3,832,879**
Impairment (Note 6.1.1)	(913)	(807)
TOTAL	**3,945,097**	**3,832,072**

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 as follows:

In thousands of KM		31 December 2021	31 December 2020
Slovakia			
	Term deposits	1,148,980	389.486
	Demand deposits	-	-
		1,148,980	**389.486**
Germany			
	Term deposits	-	-
	Demand deposits	914,686	1.068.666
		914,686	**1.068.666**
France			
	Term deposits	488,958	1.035.892
	Demand deposits	78,200	78.200
		567,158	**1.114.092**
Great Britain			
	Term deposits	504,668	486.390
	Demand deposits	-	-
		504,668	**486.390**
Switzerland			
	Term deposits	381,795	479.888
	Demand deposits	760	410
		382,555	**480.298**
Luxembourg			
	Term deposits	68,336	-
	Demand deposits	300,525	234.599
		368,861	**234.599**
Netherlands			
	Term deposits	-	-
	Demand deposits	58,650	58.650
		58,650	**58.650**
USA			
	Term deposits	-	-
	Demand deposits	452	698
		452	**698**
Total term deposits		2,592,737	2,391,656
Total demand deposits		1,353,273	1,441,223
Impairment		(913)	(807)
TOTAL		3,945,097	3,832,072

9. SPECIAL DRAWING RIGHTS WITH THE IMF

In thousands of KM	31 December 2021	31 December 2020
Account of Special Drawing Rights with the IMF	1,881	879
Accrued interest	-	-
Total	**1,881**	**879**
Impairment	-	-
TOTAL	**1,881**	**879**

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

	For the period	
In thousands of KM	**2021**	**2020**
As at 1 January	**879**	**230**
Proceeds based on SDR allocation	602,540	-
Other inflows	10,855	12,359
Outflows based on the conversion of SDR allocation	(601,198)	-
Other outflows	(9,974)	(11,582)
Interest income on SDR account	4	6
Net foreign exchange (losses)	(1,225)	(134)
Net effects of expected credit losses	-	-
As at 31 December	**1,881**	**879**

During August of 2021, the IMF remitted funds to Bosnia and Herzegovina based on SDR allocation. The Central Bank transferred the funds to the deposit account of the Ministry of Finance and Treasury of BH with the conversion of remitted funds into EUR currency. The Central Bank transferred the corresponding amounts to the subaccounts of the BH entities in accordance with relevant instruction for the fund allocation from the Ministry of Finance and Treasury of BH, being the owner of the account. For more information see Notes 18 and 35.

10. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

All debt instruments are classified at fair value through other comprehensive income, representing the foreign currency reserve funds invested in liquid sovereign government bonds of Eurozone countries. The portfolio includes short-term and long-term government bonds with a fixed interest rate. Debt instruments at fair value through other comprehensive income are denominated in EUR 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 2021	31 December 2020
Coupon debt instruments	7,931,557	8,522,422
Accrued interest on coupon debt instruments	57,320	67,513
	7,988,877	**8,589,935**
Discount debt instruments	3,628,065	1,007,252
Accrued premium on discount debt instruments	12,650	4,128
	3,640,715	**1,011,380**
TOTAL	**11,629,592**	**9,601,315**

As at 31 December 2021, provisions for expected credit losses for debt instruments, recognized in other comprehensive income, amount to KM 1,786 thousand (31 December 2020: KM 1,598 thousand). During 2021, the net increase in provisions for expected credit losses recognized in profit or loss, amounts to KM 330 thousand (2020: net increase of KM 314 thousand) For more information see Notes 6.1.1 and 25.

The average effective yield rate on debt instruments at fair value through other comprehensive income amounts to 0.12% for 2021 (2020: the average effective yield rate amounted to 0.27%).

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 2021		31 December 2020	
	In thousands of KM	%	In thousands of KM	%
France	3,986,839	34.28	3,170,119	33.02
Germany	1,799,664	15.47	1,442,399	15.02
Belgium	1,672,536	14.38	1,269,603	13.22
Spain	1,428,865	12.29	1,095,368	11.41
Austria	902,759	7.76	716,421	7.46
Netherlands	723,387	6.22	721,864	7.52
Italy	669,171	5.75	618,190	6.44
Finland	446,371	3.85	567,351	5.91
TOTAL	**11,629,592**	**100.00**	**9.601.315**	**100.00**

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

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

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	2021	2020
As at 1 January	**9,601,315**	**8,917,413**
Purchases during the year	7,132,180	3,077,975
Sales during the year	(1,153,402)	(316,129)
Interest income recognized during the year (Note 21)	33,346	37,922
Effects of negative interest rates recognized during the year (Note 21)	(25,880)	(14,624)
Maturities of debt instruments	(3,724,978)	(2,065,454)
Maturities of coupon	(103,406)	(117,466)
Net unrealised change in fair value during the year	(129,592)	81,673
Transaction costs	9	5
As at 31 December	**11,629,592**	**9,601,315**

Debt instruments, analysed by their remaining contractual maturity, are presented it the following table:

In thousands of KM	31 December 2021	31 December 2020
Up to three months	1,114,409	422,511
From three to twelve months	4,093,847	2,382,176
From one to three years	2,958,887	1,750,147
Over three years	3,462,449	5,046,481
TOTAL	**11,629,592**	**9,601,315**

Regardless of contractual maturities of debt instruments, they are considered to be liquid for meeting the liquidity needs at any time. Diversification of debt instruments with different maturities does not limit the sale of debt instruments in a case of need because all debt instruments are held within the business model for both collecting the contractual cash flows and selling.

11. MONETARY GOLD

As at 31 December 2021, fair value of monetary gold amounts to KM 301,987 thousand, representing 96,000 ounces of gold at KM 3,146 per ounce (31 December 2020: KM 291,561 thousand, representing 96,000 ounces of gold at KM 3,037 per ounce). Monetary gold is denominated in EUR currency.

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

In thousands of KM	2021	2020
As at 1 January	**291,561**	**254,088**
Net change in fair value during the year	10,426	37,473
As at 31 December	**301,987**	**291,561**

12. OTHER ASSETS

In thousands of KM	31 December 2021	31 December 2020
Receivables from domestic banks	2,203	1,756
Giro accounts	682	411
Receivables from employee based on domestic currency deficit	600	600
Other miscellaneous financial assets	472	347
Total	**3,957**	**3,114**
Impairment	(608)	(618)
Total other financial assets	**3,349**	**2,496**
Prepaid expenses for banknotes and coins production	11,164	7,860
Prepaid expenses for business administration	1,194	1,073
Numismatic collections	981	986
Other miscellaneous nonfinancial assets	239	256
Total other nonfinancial assets	**13,578**	**10,175**
TOTAL	16,927	12,671

As explained in Note 3.9, prepaid expenses for banknotes and coins production are initially recognised as accrued expenses and subsequently amortized by the expense recognising over the five years period. For more information see Note 29.

13. 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 2020	**44,368**	**24,931**	**1,867**	**1,060**	**4,865**	**77,091**
Additions	-	-	-	-	2,289	2,289
Transferred to use	-	1,845	-	21	(1,866)	-
Write offs and disposals	-	(816)	(183)	-	-	(999)
As at 31 December 2020	**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**
Accumulated depreciation and amortization						
As at 1 January 2020	**5,974**	**20,399**	**1,576**	**828**	**-**	**28,777**
Charge for the year	579	1,346	78	38	-	2,041
Write offs and disposals	-	(815)	(182)	-	-	(997)
As at 31 December 2020	**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**
Net book value						
As at 1 January 2021	**37,815**	**5,030**	**212**	**215**	**5,288**	**48,560**
As at 31 December 2021	**42,541**	**7,278**	**137**	**179**	**42**	**50,177**

During 2021, the Central Bank transferred to use the purchased land in the amount of KM 5,270 thousand, acquired for the purpose of new office building construction for Main Unit Sarajevo of the Central Bank. Further construction of the Central Bank's business premises has been temporarily suspended due to the non-delivery of the necessary permission from the land seller resulting in a temporary restriction on right of use for the purchased land. 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.

14. INTANGIBLE ASSETS

In thousands of KM	Softwares and other intangible assets	Intangible assets under construction	Intangible assets total
Cost			
As at 1 January 2020	**15,510**	**310**	**15,820**
Additions	-	162	162
Transferred to use	150	(150)	-
Write offs and disposals	(3)	-	(3)
As at 31 December 2020	**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**
Accumulated amortization			
As at 1 January 2020	**14,257**	**-**	**14,257**
Charge for the year	491	-	491
Write offs and disposals	(3)	-	(3)
As at 31 December 2020	**14,745**	**-**	**14,745**
Charge for the year	408	-	408
Write offs and disposals	-	-	-
As at 31 December 2021	**15,153**	**-**	**15,153**
Net book value			
As at 1 January 2021	**912**	**322**	**1,234**
As at 31 December 2021	**983**	**-**	**983**

15. OTHER INVESTMENTS

The structure of other investments is as follows:

In thousands of KM	31 December 2021	31 December 2020
Equity instruments:		
Shares in BIS	27,803	27,803
Shares in SWIFT	10	10
TOTAL	**27,813**	**27,813**

BIS bank 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.

15. 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 26)

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.

16. BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation can be analysed as follows:

In thousands of KM	2021	2020
As at 1 January	**6,172,457**	**5,199,916**
Increase in value of banknotes and coins in circulation during the year	751,361	972,541
As at 31 December	**6,923,818**	**6,172,457**

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

		31 December 2021		31 December 2020	
	Denomination	Pieces	Value in thousands of KM	Pieces	Value in thousands of KM
Coins	0.05	87,887,648	4,394	81,761,386	4,088
Coins	0.10	124,580,693	12,458	117,249,537	11,725
Coins	0.20	90,394,860	18,079	84,840,207	16,968
Coins	0.50	43,295,285	21,648	41,308,086	20,654
Coins	1	63,499,924	63,500	59,456,249	59,456
Coins	2	18,104,332	36,209	16,415,974	32,832
Coins	5	13,647,262	68,236	12,548,849	62,744
Total coins		**441,410,004**	**224,524**	**413,580,288**	**208,467**
Banknotes	10	14,244,184	142,442	13,551,703	135,517
Banknotes	20	10,787,416	215,748	10,068,856	201,377
Banknotes	50	26,420,846	1,321,042	24,556,493	1,227,825
Banknotes	100	41,107,777	4,110,778	34,926,392	3,492,639
Banknotes	200	4,546,419	909,284	4,533,156	906,632
Total banknotes		**97.106.642**	**6,699,294**	**87,636,600**	**5,963,990**
TOTAL		**538.516.646**	**6,923,818**	**501,216,888**	**6,172,457**

17. DEPOSITS FROM BANKS

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

In thousands of KM	31 December 2021	31 December 2020
Deposits of domestic commercial banks	7,218,902	5,900,698
Reserve accounts of the Central Bank organizational units	682	411
Special deposit of domestic commercial banks – blocked funds	33	33
TOTAL	**7,219,617**	**5,901,142**

Deposits of domestic commercial banks are placed in accordance with reserve requirement policy of the Central Bank as well as to meet obligations for settling payment transactions between domestic commercial banks mutually as well as for transactions with the Central Bank. As at 31 December 2021 the total amount of KM 7,218,902 thousand represents deposits of 23 domestic commercial banks (2020: KM 5,900,698 thousand represented deposits of 24 banks). For more information see Note 37.

Deposits from domestic commercial banks, on the basis of reserve requirement policy, include negative accrued remuneration in the amount KM 2,498 thousand as at 31 December 2021 (31 December 2020: included negative accrued remuneration in the amount KM 1,302 thousand).

The base for the required reserve calculation for domestic commercial 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 commercial banks. Required reserve ratio amounts to 10% as at the reporting dates and for the reporting periods.

Amounts exceeding the required reserve are deposits that domestic commercial banks voluntary hold on their reserve accounts. The Central Bank calculates negative remuneration rate on these funds. Calculation policy for remuneration rate on deposits placed by domestic commercial banks during the reporting periods is provided in Note 21.

The economic consequences of the global pandemic of COVID-19 led to reduced credit activities of commercial banks resulting in a significant accumulation of the amounts exceeding the required reserves on the Central Bank's accounts. These circumstances significantly increased Central Bank's monetary liabilities and unfavourably influenced both Central Bank's financial result and Central Bank's financial assets exposure to volatile changes of their fair value. For more information see Note 4.

18. 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 2021	31 December 2020
Budgetary deposits of BH institutions	693,533	579,869
Deposits of other public institutions	304,875	231,805
Deposits of other local governments and government institutions	279,323	85,047
Deposit account under the IMF transactions	151,711	323
Deposits – BH external debt	154	-
TOTAL	**1,429,596**	**897,044**

The Government and other public institutions have also accumulated and held significant amounts of deposits on their accounts at Central Bank during 2021. As at reporting date, Federation of BH has not withdrawn its funds remitted by the European Commission as well as the total amount of the funds remitted on the basis of SDR allocation by the IMF. This circumstance on the depositor side additionally increased monetary liabilities of the Central Bank. For more information see Note 4.

19. 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:

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 recognized in profit or loss	-	**138**	**33**	**171**
Amounts paid	-	(179)	-	(179)
As at 31 December	-	**1,373**	**33**	**1,406**

2020

In thousands of KM	Litigations	Severance payments	Jubilee awards	Total
As at 1 January	-	**1,394**	-	**1,394**
Released provisions	-	(13)	-	(13)
Increase in provisions	-	164	-	164
Total recognized in profit or loss	-	**151**	-	**151**
Amounts paid	-	(131)	-	(131)
As at 31 December	-	**1,414**	-	**1,414**

19. PROVISIONS (CONTINUED)

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.

20. OTHER LIABILITIES

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

In thousands of KM	31 December 2021	31 December 2020
Accrued, but non-invoiced liabilities	4,114	135
IMF Accounts No. 1 and 2 (Note 35)	2,242	1,587
Suppliers	1,560	1,932
World bank deposits	89	101
Other financial liabilities	18	4
Total other financial liabilities	**8,023**	**3,759**
Non-financial liabilities on various bases	87	106
Collected and deferred income	52	54
Total other nonfinancial liabilities	**139**	**160**
TOTAL	**8,162**	**3,919**

21. NET INTEREST INCOME

In thousands of KM	For the year ended 31 December	
Interest income arising from:	**2021**	**2020**
Debt instruments at fair value through other comprehensive income (Note 10)	33,346	37,922
Effects of negative deposit interest rates on deposits from domestic commercial banks	22,218	13,789
Financial assets at amortized cost	4	10
Total	**55,568**	**51,721**
Interest expense arising from:		
Effects of negative interest rates from debt instruments at fair value through other comprehensive income (Note 10)	(25,884)	(14,624)
Effects of negative interest rates from deposits with foreign banks	(19,536)	(17,573)
Total	**(45,420)**	**(32,197)**
Net interest income	**10,148**	**19,524**

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	
	2021	**2020**
Financial assets at amortized cost		
Interest income	4	10
Effects of negative interest rates from deposits with foreign banks	(19,536)	(17,573)
Total	**(19,532)**	**(17,563)**
Financial assets at fair value through other comprehensive income		
Interest income	33,346	37,922
Effects of negative interest rates from debt instruments at fair value through other comprehensive income	(25,884)	(14,624)
Total	**7,462**	**23,298**
Financial liabilities at amortized cost		
Effects of negative deposit interest rates on deposits from domestic commercial banks	22,218	13,789
Interest expenses	-	-
Total	**22,218**	**13,789**
Net interest income	**10,148**	**19,524**

21. NET INTEREST INCOME (CONTINUED)

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

Up to 31 May 2021, the Central Bank did not apply remuneration rate on the required reserve amounts while the remuneration rate was applied on the amounts exceeding the required reserve linked to the European Central Bank deposit facility rate.

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

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

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

Base for calculation of remuneration	Period	The Central Bank remuneration rate
2021		
Required reserves amounts		
Domestic currency base	01/01 – 31/12	0.00%
Foreign currency base	01/01 – 31/05	0.00%
Domestic currency with currency clause base	01/01 – 31/05	0.00%
Foreign currency base	01/06 – 31/12	(0.60)%
Domestic currency with currency clause base	01/06 – 31/12	(0.60)%
Amounts exceeding the required reserves	01/01 – 31/12	(0.50)%
2020		
Required reserves amounts		
Domestic currency base	01/01/ – 31/12	(0.00)%
Foreign currency base	01/01/ – 31/12	(0.00)%
Domestic currency with currency clause base	01/01/ – 31/12	(0.00)%
Amounts exceeding the required reserves	01/01/ – 31/12	(0.50)%

21. NET INTEREST INCOME (CONTINUED)

The following table provides the average balance of the reserve accounts of domestic commercial banks, calculated for the last ten day period regarding the reporting dates:

In thousands of KM

	21/12 – 31/12/2021	21/12 – 31/12/2020
Required reserve	2,989,873	2,727,364
Amounts exceeding the required reserves	4,097,112	3,038,133
TOTAL	**7,086,985**	**5,765,497**

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 commercial banks and for the purpose of strengthening the domestic currency. More information regarding the required reserves policy of the Central Bank is disclosed in Note 17.

Effects of negative deposit interest rates on deposits from domestic commercial banks include income of KM 17,422 thousand from the amounts exceeding required reserves and income of KM 4,796 thousand from the amounts of required reserves (2020: KM 13,789 thousand arising from the amounts exceeding the required reserves).

Effects of negative interest rates from interest-bearing financial assets are the result of the negative interest rates and yields calculated on deposits with foreign banks and debt instruments that could not be avoided according to current market circumstances and allowed legal requirements for investing Central Bank's foreign currency reserves. For more information see Notes 8 and 10.

Effects of negative interest rates on deposits with foreign banks include the amount of KM 15,815 thousand on term deposits and KM 3,721 thousand on demand deposits (2020: included the amount of KM 12,605 thousand on term deposits and KM 4,968 thousand on demand deposits).

22. NET FEE AND COMMISSION INCOME

	For the year ended 31 December	
In thousands of KM	2021	2020
Fee and commission income arising from:		
Services for domestic banks	18,759	16,765
Services for the Government and other non-banking clients	2,211	1,296
Total	**20,970**	**18,061**
Fee and commission expenses arising from:		
Custodian and other expenses for debt instruments	(777)	(649)
Transactions with foreign banks	(29)	(34)
Other fee and commission expenses	(7)	(6)
Total	**(813)**	**(689)**
Net fee and commission income	**20,157**	**17,372**

22. NET FEE AND COMMISSION INCOME (CONTINUED)

The Central Bank calculates fee and commission income under determined tariffs for its services (Note 3.9). During 2021, the Central Bank revised the tariffs from the services provided and adopted new tariffs, effective from 1 May 2021. 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 system functioning is disclosed in Note 36.

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

	For the year ended 31 December	
In thousands of KM	2021	2020
Realised gains	6,476	1,578
Realised losses	(1,527)	-
TOTAL	**4,949**	**1,578**

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

24. NET FOREIGN EXCHANGE (LOSSES)

	For the year ended 31 December	
In thousands of KM	2021	2020
Net unrealised foreign exchange (losses)	(670)	(328)
Net realised foreign exchange gains	184	144
TOTAL	**(486)**	**(184)**

25. NET IMPAIRMENT ON FINANCIAL ASSETS

In thousands of KM	For the year ended 31 December 2021.	2020.
Net (increase) / release of impairment for deposits with foreign banks	(106)	(83)
Net (increase) / release of impairment for Special Drawing Rights with the IMF	-	-
Net (increase) / release in provisions for expected credit losses for debt instruments	(330)	(314)
Net (increase) / release of impairment for other financial assets	10	(13)
TOTAL	**(426)**	**(410)**

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.

26. OTHER INCOME

In thousands of KM	For the year ended 31 December 2021	2020
Dividend income	1,297	-
Income from sale of fixed assets	57	-
Income from the participation in international projects	29	31
Income from grants	6	50
Net effects of numismatic collections value adjustments	4	147
Other income	9	17
TOTAL	**1,402**	**245**

During 2021, the Central Bank received a dividend from BIS shares amounting to KM 1,297 thousand. The amount of the determined dividend consists of a normal dividend and a supplement to the dividend per share (2020: The Central Bank did not received dividend from BIS shares due to the BIS's decision to transfer all annual profit to appropriate reserves). For more information see Note 15.

27. PERSONNEL EXPENSES

In thousands of KM	For the year ended 31 December 2021	2020
Salaries	10,678	9,990
Contributions and other fees on salaries	6,090	5,679
Other employee benefits	2,089	2,093
Contributions and other fees on other employee benefits	641	665
Net increase in provisions for severance payments (Note 19)	171	151
TOTAL	**19,669**	**18,578**

Personnel expenses include KM 3,756 thousand (2020: KM 3,544 thousand) of defined pension contributions paid into 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.

During 2021, the average number of employees amounts to 368 (2020: 366).

28. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of KM	For the year ended 31 December 2021	2020
Payment systems maintenance expenses	1,713	1,613
Overhead expenses	957	952
IT infrastructure expenses	878	781
Access to official services expenses	622	687
Fixed assets maintenance expenses	470	643
Other administrative and operating expenses	1,874	1,576
TOTAL	**6,514**	**6,252**

29. COSTS OF PRODUCTION OF BANKNOTES AND COINS

In thousands of KM	For the year ended 31 December 2021	2020
Costs of production and design of banknotes	2,767	2,180
Costs of production and design of coins	1,376	675
TOTAL	**4,143**	**2,855**

30. 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 2021 amounted to 3.66% (2020: 4.34%). According to the Decision of the Governing Board, total amount of net profit for the 2021 financial year in the amount of KM 2,897 thousand is allocated to the general reserves (retained earnings) of the Central Bank (2020: total of the net profit for the 2020 financial year in the amount of KM 7,908 thousand was allocated to the general reserves (retained earnings) of the Central Bank).

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%**

2020

Before profit allocation

	(In thousands of KM)
Monetary liabilities	**12,970,643**
Initial capital and general reserves (retained earnings)	562,295
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	**4.34%**

Profit allocation

	(In thousands of KM)
Net profit before allocation	**7,908**
Allocation of profit to general reserves (retained earnings)	7,908

After profit allocation

	(In thousands of KM)
Monetary liabilities	**12,970,643**
Initial capital and general reserves (retained earnings)	570,203
Ratio - initial capital and general reserves (retained earnings) / monetary liabilities	**4.40%**

31. EQUITY

The structure of equity is presented in the following table:

In thousands of KM	31 December 2021	31 December 2020
Initial capital	25,000	25,000
Fair value reserves for debt and equity instruments	158,914	293,125
Fair value reserves for monetary gold	98,129	87,703
Other reserves	31,300	31,300
General reserves (Retained earnings)	548,100	545,203
TOTAL	**861,443**	**982,331**

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. Such gains and losses are not available for any distribution.
- 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 15).

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.

32. CASH AND CASH EQUIVALENTS

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

In thousands of KM	31 December 2021	31 December 2020
Foreign currency deposits with maturity up to three months or less from the date of acquisition	2,162,164	1,325,647
Foreign currency demand deposits	1,353,272	1,441,223
Cash in foreign currencies	469,585	142,202
Special Drawing Rights with the IMF	1,881	879
Giro accounts	682	411
Total	**3,987,584**	**2,910,362**
Impairment	(858)	(674)
TOTAL	**3,986,726**	**2,909,688**

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

In thousands of KM	2021	2020
As at 1 January	**674**	**629**
Foreign currency deposits with maturity up to three months or less from the date of acquisition	214	95
Foreign currency demand deposits	(30)	(50)
Cash in foreign currencies	-	-
Special Drawing Rights with the IMF	-	-
Giro accounts	-	-
As at 31 December	**858**	**674**

33. 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 by the Council of Ministers of Bosnia and Herzegovina, transactions performed as part of regular operations of the Central Bank with the state and state institutions represent related 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 state institutions. The Central Bank receives deposits from BH state and other state institutions and acts strictly on depositors' behalf and order.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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
Other liabilities	-	-	1	1
TOTAL	917,836	287,313	163,301	1,368,450
For the year ended 31 December 2021				
INCOME				
Fee and commission income	393	183	140	716
TOTAL	393	183	140	716

In thousands of KM

As at
31 December 2020

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

33. 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 state institutions that are recorded off-balance. More information about these off-balance records is disclosed in Notes 34 and 35.

Remuneration of key management members

The Central Bank considers that it has an immediate related party relationship with its 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.

The total remuneration of the members of the key management personnel in 2021 amounted to KM 918 thousand, out of which KM 574 thousand was related to salaries and other remuneration and KM 344 thousand to taxes and contributions (in 2020 out of total amount of KM 889 thousand the amount of KM 556 thousand was related to salaries and other remuneration and KM 333 thousand was related to taxes and contributions).

34. 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, they have not been included within the Central Bank's statement of financial position.

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

Off-balance sheet items consist of:

In thousands of KM	31 December 2021	31 December 2020
Deposits of USAID	-	2,497
Deposits of non-residents	**-**	**2,497**
Deposits of the Council of Ministers of BH:	8,805	8,556
Deposits of the Council of Ministers of BH on the basis of succession	*44*	*41*
Deposits of the Council of Ministers of BH regarding the servicing of foreign debt	*6,923*	6,738
Deposits of the Council of Ministers of BH regarding the Budget of BH institutions	*1,567*	*1,528*
Other deposits of the Council of Ministers of BH	*271*	*249*
Deposits of other residents:	7,700	13,459
Deposits - Retirement allowance from Germany	*72*	-
Deposit accounts of banks	*7,628*	*13,459*
Deposits of residents	**16,505**	**22,015**
Deposit Insurance Agency of BH cash account	40,910	73,684
Total – State public institutions	**40,910**	**73,684**
TOTAL	**57,415**	**98,196**

BH Ministry of Finance and Treasury is the institution that acts on behalf of Council of Ministers of BH and state in deposit management and coordination as presented it the table. As at 31 December 2021 the total of these funds amount to KM 8,805 thousand (2020: KM 11,053 thousand).

34. OFF-BALANCE SHEET DEPOSITS (CONTINUED)

USAID Deposits

On the basis of the Agreement regarding financial assistance between BH and the United States of America for the financing of the reconstruction, special interest-bearing accounts have been opened. The Central Bank does not charge and does not collect any interest or fees on these accounts.

Residents' investments related to securities

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

35. 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 a 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 each 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.

35. 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 2021	31 December 2020
Quota	641,864	614,046
Special Drawing Rights with the IMF	1,881	879
TOTAL ASSETS	643,745	614,925
IMF account No.1	1,605	1,535
IMF account No.2	637	52
Securities	1,562,617	1,520,009
SDR allocation	1,004,591	372,517
Accrued interest on SDR allocation	92	65
Accounts of payable charges	1,627	1,670
TOTAL LIABILITIES	2,571,169	1,895,848
BH NET POSITION WITH THE IMF	1,927,424	1,280,923

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

On 23 August 2021 the Central Bank received funds from the IMF on behalf of BH from SDR allocation in the amount of KM 602,540 thousand. These funds are intended to mitigate economic consequences in BH caused by the global pandemic of COVID-19. Remitted funds are the main reason of the increase of BH net position with the IMF. SDR allocation is not a regular credit arrangement between BH and the IMF.

36. DOMESTIC PAYMENT AND SETTLEMENT SYSTEM

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

Since January 2001, the interbank clearing and settlement system is 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 10 thousand convertible marks, 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 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.

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 computer systems and the 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.

36. DOMESTIC PAYMENT AND SETTLEMENT SYSTEM (CONTINUED)

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.

During the global pandemic of COVID-19, the Central Bank successfully responded to all tasks when it comes to the stability of system functioning. All transactions were performed during the system working hours.

Oversight and development of payment systems

In 2021, the Central Bank operationalised the function of oversight and development of payment systems. Oversight includes the activities of payment systems monitoring, compliance evaluation with the Principles of Financial Markets Infrastructure ('PFMI') adopted by the Committee on Payments and Market Infrastructures - The International Organization of Securities Commissions ('CPMI-IOSCO) at BIS bank and development function of payment systems. PFMI 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. Through development function, the Central Bank actively participates in preparational and implementational 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.

37. EVENTS AFTER THE REPORTING PERIOD

The Governing Board of the Central Bank has appointed members of the Audit Committee of the Central Bank and a member of the Management of the Central Bank with mandates starting as follows:

Audit Committee

Elvir Čizmić, Ph.D.	Chairman (from 1 January 2022)
Dijana Ćavar, Ph.D.	Member (from 1 January 2022)
Vasilj Žarković, Ph.D.	Member (from 1 March 2022)

The Audit Committee of the Central Bank reviewed these financial statements prior to their approval by the Governing Board and carried out necessary communication with the Central Bank's independent auditors.

Management

Marko Vidaković, M.Sc.	Vice Governor (from 1 March 2022)

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

37. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

From 1 January 2022, the Central Bank started to apply new negative remuneration rate of 0.75 % on the amounts exceeding the required reserves of commercial banks. This change was implemented in order to strengthen the currency board and as an incentive to commercial banks to more actively use significant amounts exceeding the required reserves, which they hold on their accounts at the Central Bank, in the development of the economic system in Bosnia and Herzegovina.

In the period between 31 December 2021 and the date of the approval of these financial statements, two commercial banks, finally owned by the Russian Federation, have been restructured. The restructuring procedure was initiated by introducing sanctions to the banks in Russian ownership by the European Union and USA.

The escalation of the conflict in Ukraine in February 2022 is a new source of uncertainty to which the operations of the Central Bank may be exposed during 2022. Potential negative effects are continuously monitored, but it is still not possible to quantify their consequences on the financial position and operations of the Central Bank.

Except from the above mentioned, no adjusting or non-adjusting events have occurred between 31 December 2021 and the date of authorization of these financial statements.