



Centralna banka
BOSNE I HERCEGOVINE
Централна банка
БОСНЕ И ХЕРЦЕГОВИНЕ



CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2022

(unaudited)

in accordance with the requirements of International Accounting Standard 34

Sarajevo, 29 July 2022

This version of the condensed interim 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.



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FINANCIAL REPORTING RESPONSIBILITY

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

The Management is responsible for the consistent application of selected accounting policies, making judgements and estimates that are reasonable and prudent and for maintaining proper accounting records to enable the preparation of financial statements at any time. The Management has a general responsibility for taking 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 overseeing the Central Bank of Bosnia and Herzegovina financial reporting process. In overseeing the financial reporting process, the Governing Board is assisted by the Audit Committee, which is consisted of three independent members. The Audit Committee reviews the condensed interim financial statements, which are then approved by the Governing Board and submitted to the Presidency of Bosnia and Herzegovina.

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

The accompanying condensed interim financial statements set out on pages 2 to 48 are approved by the Governing Board on 29 July 2022.


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




Vesna Paćuka, MA
Head of Accounting and Finance Department

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Condensed Interim Financial Statements for the period ended 30 June 2022

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

| In thousands of KM | Note | 30 June 2022 | As at 31 December 2021 |
|---|-------------|-------------------------|---------------------------------------|
| ASSETS | | | |
| Cash in foreign currencies | 6 | 452,568 | 469,585 |
| Deposits with foreign banks | 7 | 4,465,195 | 3,945,097 |
| Special Drawing Rights with the IMF | 30 | 1,579 | 1,881 |
| Debt instruments at fair value through other comprehensive income | 8 | 9,512,807 | 11,629,592 |
| Monetary gold | 9 | 296,688 | 301,987 |
| Debt instruments at amortised cost | 10 | 1,168,614 | - |
| Other assets | 11 | 14,477 | 16,927 |
| Property and equipment | | 49,002 | 50,177 |
| Intangible assets | | 925 | 983 |
| Other investments | | 27,813 | 27,813 |
| TOTAL ASSETS | | 15,989,668 | 16,444,042 |
| LIABILITIES AND EQUITY | | | |
| LIABILITIES | | | |
| Banknotes and coins in circulation | 12 | 7,221,991 | 6,923,818 |
| Deposits from banks | 13 | 6,828,689 | 7,219,617 |
| Deposits from the Government and other public institutions | 14 | 1,310,381 | 1,429,596 |
| Provisions | | 1,342 | 1,406 |
| Other liabilities | 15 | 3,096 | 8,162 |
| Total liabilities | | 15,365,499 | 15,582,599 |
| EQUITY | | | |
| Initial capital | | 25,000 | 25,000 |
| Reserves | | 597,166 | 836,443 |
| Net profit for the period | | 2,003 | - |
| Total equity | 26 | 624,169 | 861,443 |
| TOTAL LIABILITIES AND EQUITY | | 15,989,668 | 16,444,042 |

The selected notes on pages 9 to 48 are an integral part of these condensed interim financial statements.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Condensed Interim Financial Statements for the period ended 30 June 2022

STATEMENT OF PROFIT OR LOSS (UNAUDITED)

| In thousands of KM | Note | For the period | | | |
|--|------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | 01/01 - 30/06 2021 |
| Interest income | | 16,269 | 13,340 | 32,723 | 25,865 |
| Interest expense | | (13,301) | (10,156) | (27,832) | (19,619) |
| NET INTEREST INCOME | 16 | 2,968 | 3,184 | 4,891 | 6,246 |
| Fee and commission income | | 5,393 | 5,081 | 11,383 | 9,761 |
| Fee and commission expense | | (210) | (197) | (431) | (383) |
| NET FEE AND COMMISSION INCOME | 17 | 5,183 | 4,884 | 10,952 | 9,378 |
| Net realised (losses) / gains from sale of debt instruments at fair value through other comprehensive income | 18 | (12,178) | - | (10,159) | 2,023 |
| Net realised gains from sale of monetary gold | 19 | - | - | 11,489 | - |
| Net foreign exchange gains | 20 | 100 | 291 | 244 | 580 |
| Net (decrease) / increase of impairment on financial assets | 21 | (194) | 114 | (547) | 30 |
| Other income | 22 | 691 | 1,328 | 787 | 1,324 |
| OPERATING INCOME | | (3,430) | 9,801 | 17,657 | 19,581 |
| Personnel expenses | 23 | (4,847) | (5,113) | (9,060) | (9,454) |
| Administrative and other operating expenses | 24 | (1,615) | (1,636) | (3,207) | (3,035) |
| Costs of production of banknotes and coins | 25 | (852) | (1,000) | (1,940) | (1,796) |
| Depreciation and amortisation charge | | (721) | (625) | (1,447) | (1,244) |
| OPERATING EXPENSES | | (8,035) | (8,374) | (15,654) | (15,529) |
| NET (LOSS) / PROFIT FOR THE PERIOD | | (11,465) | 1,427 | 2,003 | 4,052 |

The selected notes on pages 9 to 48 are an integral part of these condensed interim financial statements.

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| In thousands of KM | Note | For the period | | | |
|--|--------|-----------------------|-----------------------|-----------------------|---------------------|
| | | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | 01/01-30/06 2021 |
| NET (LOSS) / PROFIT FOR THE PERIOD | | (11,465) | 1,427 | 2,003 | 4,052 |
| Other comprehensive (loss) / income | | | | | |
| <i>Items that are or may be reclassified subsequently to profit or loss:</i> | | | | | |
| Debt instruments at fair value through other comprehensive income | | | | | |
| Net change in fair value during the period | 8 | (110,801) | (26,322) | (261,103) | (93,003) |
| Net change in provisions for expected credit losses recognized in profit or loss during the period | 5.1.1. | (10) | 33 | (22) | 138 |
| Reclassification to profit or loss from sale of debt instruments | 18 | 12,178 | - | 10,159 | (2,023) |
| | | (98,633) | (26,289) | (250,966) | (94,888) |
| Monetary gold | | | | | |
| Net change in fair value during the period | 9 | (4,642) | 7,017 | 23,178 | (11,260) |
| Reclassification to profit or loss from sale of monetary gold | 19 | - | - | (11,489) | - |
| | | (4,642) | 7,017 | 11,689 | (11,260) |
| Total other comprehensive (loss) | | (103,275) | (19,272) | (239,277) | (106,148) |
| TOTAL COMPREHENSIVE (LOSS) FOR THE PERIOD | | (114,740) | (17,845) | (237,274) | (102,096) |

The selected notes on pages 9 to 48 are an integral part of these condensed interim financial statements.

STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

| 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 | Net profit for the period | Total equity |
|---|------------------------|--|--|-----------------------|---|-----------------------|----------------------------------|---------------------|
| Balance at 1 January 2022 | 25,000 | 158,914 | 98,129 | 31,300 | 548,100 | 836,443 | - | 861,443 |
| Total comprehensive (loss) / income for the period | - | (250,966) | 11,689 | - | - | (239,277) | 2,003 | (237,274) |
| Net profit for the period | - | - | - | - | - | - | 2,003 | 2,003 |
| Other comprehensive (loss) /income | - | (250,966) | 11,689 | - | - | (239,277) | - | (239,277) |
| <i>Net unrealised negative changes in fair value for debt instruments</i> | - | (261,103) | - | - | - | (261,103) | - | (261,103) |
| <i>Net release of provisions for expected credit losses for debt instruments recognised in profit or loss</i> | - | (22) | - | - | - | (22) | - | (22) |
| <i>Net realised negative changes in fair value for debt instruments sold transferred to profit or loss</i> | - | 10,159 | - | - | - | 10,159 | - | 10,159 |
| <i>Net unrealised positive changes in fair value for monetary gold</i> | - | - | 23,178 | - | - | 23,178 | - | 23,178 |
| <i>Net realised positive changes in fair value for monetary gold sold transferred to profit or loss</i> | - | - | (11,489) | - | - | (11,489) | - | (11,489) |
| Balance at 30 June 2022 | 25,000 | (92,052) | 109,818 | 31,300 | 548,100 | 597,166 | 2,003 | 624,169 |

The selected notes on pages 9 to 48 are an integral part of these condensed interim financial statements.

STATEMENT OF CHANGES IN EQUITY (UNAUDITED) (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 | Net profit for the period | 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 period | - | (94,888) | (11,260) | - | - | (106,148) | 4,052 | (102,096) |
| Net profit for the period | - | - | - | - | - | - | 4,052 | 4,052 |
| Other comprehensive (loss) | - | (94,888) | (11,260) | - | - | (106,148) | - | (106,148) |
| <i>Net unrealised negative changes in fair value for debt instruments</i> | - | (93,003) | - | - | - | (93,003) | - | (93,003) |
| <i>Net increase in provisions for expected credit losses for debt instruments recognised in profit or loss</i> | - | 138 | - | - | - | 138 | - | 138 |
| <i>Net realised positive changes in fair value for debt instruments sold transferred to profit or loss</i> | - | (2,023) | - | - | - | (2,023) | - | (2,023) |
| <i>Net unrealised negative changes in fair value for monetary gold</i> | - | - | (11,260) | - | - | (11,260) | - | (11,260) |
| Balance at 30 June 2021 | 25,000 | 198,237 | 76,443 | 31,300 | 545,203 | 851,183 | 4,052 | 880,235 |

The selected notes on pages 9 to 48 are an integral part of these condensed interim financial statements.

STATEMENT OF CASH FLOWS (UNAUDITED)

| | | For the period | |
|--|-------------|-------------------------------|-------------------------------|
| | Note | 01/01 - 30/06 2022 | 01/01 - 30/06 2021 |
| In thousands of KM | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net profit for the period | | 2,003 | 4,052 |
| Adjusted for: | | | |
| Interest income | 16 | (32,723) | (25,865) |
| Interest expense | 16 | 27,832 | 19,619 |
| Net decrease / (increase) of impairment on financial assets | 21 | 547 | (30) |
| Net realised losses / (gains) from sale of debt instruments at fair value through other comprehensive income | 18 | 10,159 | (2,023) |
| Net realised (gains) from sale of monetary gold | 19 | (11,489) | - |
| Net foreign exchange (gains) | 20 | (244) | (580) |
| Income from grants | | (2) | (2) |
| Provisions, net increase | | 13 | 4 |
| Dividend income recognized in profit or loss | 22 | (721) | (1,297) |
| Depreciation and amortisation charge | | 1,447 | 1,244 |
| Net cash flows used in operating activities before changes in operating assets and liabilities | | (3,178) | (4,878) |
| Changes in operating assets and liabilities | | | |
| Decrease in term deposits with foreign banks | | 156,757 | 528,366 |
| Decrease / (increase) in debt instruments at fair value through other comprehensive income | | 1,855,683 | (1,026,138) |
| (Increase) in debt instruments at amortised cost | | (1,168,830) | - |
| Decrease in monetary gold | | 28,477 | - |
| Decrease / (increase) in other assets | | 2,557 | (5,739) |
| Increase in banknotes and coins in circulation | 12 | 298,173 | 268,829 |
| (Decrease) / increase in deposits from banks | | (388,068) | 42,635 |
| (Decrease) / increase in deposits from the Government and other public institutions | | (119,215) | 110,417 |
| (Decrease) in other liabilities | | (5,116) | (32) |
| Payments from provisions | | (77) | (57) |
| Interest received | | 29,864 | 23,824 |
| Interest paid | | (27,866) | (19,014) |
| Net cash from operating activities | | 659,161 | (81,787) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property, equipment and intangible assets | | (215) | (216) |
| Dividend receivables | | 721 | - |
| Net cash used in investing activities | | 506 | (216) |

The selected notes on pages 9 to 48 are an integral part of these condensed interim financial statements.

STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED)

| In thousands of KM | Note | 01/01 - 30/06 2022 | For the period 01/01 - 30/06 2021 |
|---|-------------|-------------------------------|--|
| Net effects from impairment for expected credit losses on cash and cash equivalents | | (376) | 95 |
| Net effects of exchange rates on cash and cash equivalents held | | 294 | 613 |
| Net increase / (decrease) in cash and cash equivalents | | 659,585 | (81,295) |
| Cash and cash equivalents at the beginning of the period | | 3,986,726 | 2,909,688 |
| Cash and cash equivalents at the end of the period | 27 | 4,646,311 | 2,828,393 |

The selected notes on pages 9 to 48 are an integral part of these condensed interim financial statements.

**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2022 (UNAUDITED)**

1. GENERAL INFORMATION

The Central Bank of Bosnia and Herzegovina (the “Central Bank”) is the supreme monetary authority of Bosnia and Herzegovina state (“BH”). Its establishment, organization 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 BH Constitution).

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 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 domestic currency must be issued only with full coverage in convertible foreign currency reserves. Nevertheless, the Central Bank has an obligation to purchase and sell Convertible Mark (KM) for Euro (EUR) on demand, without any restrictions, at the official exchange rate of KM to EUR as $KM\ 1.95583 = EUR\ 1$, prescribed by the Law on the Central Bank.

Guaranteed convertibility of domestic currency and full coverage of monetary liabilities with convertible foreign currency reserves according to the currency board rule are the primary objectives of the Central Bank. All activities and operations of the Central Bank are undertaken in order to achieve the legally set goals and objectives with reference to preserve the stability of domestic currency in accordance with the currency board rule and are not, at any moment, aimed at profit maximization.

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

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

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

Governing Board

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

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

| | |
|-------------------------|-----------------------------------|
| Senad Softić Ph.D. | Governor |
| Ernadina Bajrović M.Sc. | Vice Governor |
| Željko Marić Ph.D. | Vice Governor |
| Marko Vidaković M.Sc. | Vice Governor (from 1 March 2022) |

As at the reporting date, the Audit Committee members of the Central Bank are:

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) |

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

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”): “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). The condensed interim financial statements do not include all the information required for the complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the latest audited financial statements of the Central Bank for the year ended 31 December 2021 (“annual financial statements”).

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

These condensed interim financial statements have been prepared using the ongoing concern assumption. More information on the circumstances under which the Central Bank’s operations were performed in the reporting period is disclosed in Note 2.7.

The results of the Central Bank operations for the reporting period and as at the reporting date presented in these condensed interim financial statements are not necessarily indicative for the results of the Central Bank operations that can be expected for 2022.

2. BASIS OF PREPARATION (CONTINUED)

2.2. Basis of measurement

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

| Item | Basis of measurement |
|--|-----------------------------|
| Financial instruments at fair value through other comprehensive income | Fair value |
| Monetary gold | Fair value |

2.3. Functional and presentation currency

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

2.4. Changes to IFRSs

At the date of approval of these condensed interim financial statements, certain changes and interpretations of the existing standards are effective from 1 January 2022. Their implementation has no significant impact on condensed interim financial statements of the Central Bank.

2.5. Accounting policies

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

2.6. Significant accounting judgements and estimates

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

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

These condensed interim financial statements have been prepared based upon conditions existing at 30 June 2022. Future conditions may differ from those that resulted in the financial information disclosed in these condensed interim financial statements.

2.7. Circumstances for executing the Central Bank's operations

The operations of the Central Bank have been exposed to the significantly different circumstances in the current reporting period compared to the comparative reporting period as well as financial information disclosed in the latest annual financial statements. These circumstances led to the significant changes in the amounts of certain items of the financial position and performance of the Central Bank as at the reporting date, i.e., in the reporting periods related to comparative ones.

In the current reporting period, the total amount of the foreign currency reserves of the Central Bank has decreased as a consequence of the decrease in fair value of the invested foreign currency reserves, although monetary liabilities have also decreased. Volatile changes on the Eurozone financial markets have resulted in the temporary reduction of net foreign assets and equity of the Central Bank as at the reporting date.

2. BASIS OF PREPARATION (CONTINUED)

2.7. Circumstances for executing the Central Bank's operations (continued)

Decrease of the Central Bank's monetary liabilities was influenced by the activities of domestic commercial banks and depositors of the Central Bank in the current reporting period. The domestic commercial banks' initial significant demands for intensive withdrawal of KM cash and EUR banknotes have been successfully carried out by timely reactions of the Central Bank, resulting in the stopping of abruptly withdrawal of KM cash and in the normalisation and stabilisation of issuance of banknotes and coins in circulation. The guaranteed convertibility of KM was not compromised at any time, and all legal obligations of the Central Bank regarding this matter were carried out without interruptions.

In the current reporting period, the Central Bank has continuously monitored the implementation of the previously introduced measures regarding the innovation of the required reserves policy framework being the only instrument of the monetary policy at disposal to the Central Bank in accordance with the Law on the Central Bank. Since 1 January 2022, a new negative remuneration rate has been applied on the amounts exceeding the required reserves of commercial banks. The gradual introduction of new measures regarding the required reserves policy represents support to the currency board i.e., it stimulates banks to place significant financial funds to support the BH economic system instead of holding the funds on the reserve accounts with the Central Bank. As at the reporting date, above mentioned activities of the domestic commercial banks have led to a decrease of the amounts of funds on the reserve's accounts held with the Central Bank.

As at the reporting date, Federation BH withdrew the total amount of the transferred funds based on the SDR allocation from the IMF.

For more information see the Notes:

| Note | Title |
|-------------|--|
| 3 | Currency board arrangement |
| 6 | Cash in foreign currencies |
| 12 | Banknotes and coins in circulation |
| 13 | Deposits from banks |
| 14 | Deposits from the Government and other public institutions |
| 16 | Net interest income |

The gradual recovery of the financial markets and the rise of market yields of the Eurozone debt instruments caused strong turbulences on the financial markets during the second quarter of the reporting period. The latest announcements of the European Central Bank (the "ECB") representatives regarding the intention to increase the reference interest rates in July and September, emphasized concerns on rising inflation, robust growth in food and energy prices caused by the war in Ukraine and the threat of another recession in the Eurozone led to daily oscillations of the market prices and yields of the Eurozone debt instruments, i.e., accelerated anticipation of these announcements on the financial markets. Such significant and sudden changes in financial markets' conditions directly affected the overall financial performances of the invested Central Bank's foreign currency reserves. This required the prompt response in the direction of adjusting the foreign currency reserves investing policy and the implementation of the non-standard investment measures aimed to protect the value of the foreign currency reserves from potential sudden falls in the future period. In addition, the measures undertaken are directed at creating the assumptions for restructuring the existing foreign currency reserves portfolio with the aim of reducing the interest rate exposure and sensitivity.

Sudden decrease of fair value of the Central Bank's foreign currency reserves was caused by the above mentioned circumstances on the Eurozone financial markets and has generated the total comprehensive loss in the reporting period, i.e., the decrease in equity as at the reporting date. The presented loss does not and cannot cause any actual cash outflows.

The Central Bank took advantage of the favorable financial markets conditions and sold a smaller quantity of ounces of monetary gold in March 2022. The sale of monetary gold generated a realised gain in the amount of KM 11,489 thousand.

2. BASIS OF PREPARATION (CONTINUED)**2.7. Circumstances for executing the Central Bank's operations (continued)**

During the reporting period, the Central Bank invested a part of the foreign currency reserves in the portfolio classified at amortised cost. Due to sudden changes in the financial markets' circumstances, certain sales of debt instruments have been executed generating the net realized loss in the amount of KM 10,159 thousand. The Central Bank's debt instruments are instruments for currency board protection and are not held with the purpose of the profit maximization but to protect the coverage of the monetary liabilities with net foreign currency reserves.

For more information see the Notes:

| Note | Title |
|-------------|--|
| 3 | Currency board arrangement |
| 5 | Financial risk management |
| 8 | Debt instruments at fair value through other comprehensive income |
| 9 | Monetary gold |
| 10 | Debt instruments at amortised cost |
| 16 | Net interest income |
| 18 | Net realised (losses) / gains from sale of debt instruments at fair value through other comprehensive income |
| 19 | Net realised gains from sale of monetary gold |
| 26 | Equity |

During the reporting period, the Central Bank continued to consistently and accountably manage its expenditures and expenses from administrative operations. The operating expenses of the Central Bank are approximately the same in the current and comparative reporting periods even though the circumstances for performing the administrative operations have been significantly changed in the direction of increased inflationary pressures in the current reporting period.

For more information see Notes:

| Note | Title |
|-------------|---|
| 23 | Personnel expenses |
| 24 | Administrative and other operating expenses |

The Management continuously monitors the increased factors of uncertainty, including Russian-Ukrainian war, global inflation, pandemic measures in China and the risk of another recession in the Eurozone, which may significantly influence the financial performances of the Central Bank in the forthcoming period.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 30 June 2022

3. CURRENCY BOARD ARRANGEMENT

Article 31 of the Law on the Central Bank defines the rule “currency board” for issuing the currency, according to which the Central Bank is obliged to ensure that total amount of its monetary liabilities never exceeds the equivalent amount (expressed in KM) of its net foreign currency reserves.

Details of compliance with that rule, calculated in relation to official foreign currency reserves, are as follows:

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-----------------------------|
| Gross foreign currency reserves | 15,897,451 | 16,348,142 |
| Cash in foreign currencies | 452,568 | 469,585 |
| Deposits with foreign banks | 4,465,195 | 3,945,097 |
| Special Drawing Rights with the IMF | 1,579 | 1,881 |
| Debt instruments | 10,681,421 | 11,629,592 |
| Monetary gold | 296,688 | 301,987 |
| Liabilities to non-residents | 2,384 | 2,331 |
| Net foreign currency reserves (Gross foreign currency reserves less liabilities to non-residents) | 15,895,067 | 16,345,811 |
| Monetary liabilities | 15,361,061 | 15,573,031 |
| Banknotes and coins in circulation | 7,221,991 | 6,923,818 |
| Deposits from banks | 6,828,689 | 7,219,617 |
| Deposits from the Government and other public institutions | 1,310,381 | 1,429,596 |
| NET FOREIGN ASSETS (Net foreign currency reserves less monetary liabilities) | 534,006 | 772,780 |

Net foreign assets are the Central Bank’s main financial indicator of achieving and maintaining the stability of domestic currency in BH and its main financial performance measure. Being the part of gross foreign currency reserves, net foreign assets cannot be assumed as the Central Bank’s asset available for fiscal purposes. The use of the Central Bank’s foreign currency reserves for fiscal purposes is explicitly prohibited by the Law on the Central Bank. As at 30 June 2022, net foreign currency reserves exceed monetary liabilities by KM 534,006 thousand ensuring an adequate level of foreign currency reserves and the full stability of domestic currency (31 December 2021: KM 772,780 thousand). For more information see Note 26.

Fluctuations in market prices of debt instruments at fair value through other comprehensive income and monetary gold dominantly affect the amount of net foreign assets. More information about changes in these items is disclosed in Notes 8 and 9.

More information about fair value of currency board components is disclosed in Note 4.

4. 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.

4.1. Financial assets measured at fair value

In thousands of KM

| | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-----------------------------|
| Financial assets | | |
| <i>Financial assets measured at fair value through other comprehensive income</i> | | |
| Debt instruments | 9,512,807 | 11,629,592 |
| Monetary gold | 296,688 | 301,987 |
| TOTAL | 9,809,495 | 11,931,579 |

Financial assets measured at fair value belong to Level 1 of fair value measurement as at the reporting dates.

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Selected Notes to the Condensed Interim Financial Statements for the period ended 30 June 2022

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

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

In thousands of KM

| | 30 June 2022 | |
|--|------------------------|-------------------|
| | Carrying amount | Fair value |
| Financial assets | | |
| <i>Financial assets measured at amortised cost:</i> | | |
| Cash in foreign currencies | 452,568 | 452,568 |
| Deposits with foreign banks | 4,465,195 | 4,458,080 |
| Special Drawing Rights with the IMF | 1,579 | 1,579 |
| Debt instruments at amortised cost | 1,168,614 | 1,100,147 |
| Other financial assets | 3,255 | 3,255 |
| | 6,091,211 | 6,015,629 |
| <i>Financial assets measured at fair value through other comprehensive income-cost choice:</i> | | |
| Other investments | 27,813 | 27,813 |
| | 27,813 | 27,813 |
| Total | 6,119,024 | 6,043,442 |
| Financial liabilities | | |
| <i>Financial liabilities measured at amortised cost:</i> | | |
| Banknotes and coins in circulation | 7,221,991 | 7,221,991 |
| Deposits from banks | 6,828,689 | 6,837,921 |
| Deposits from the Government and other public institutions | 1,310,381 | 1,312,153 |
| Other financial liabilities | 3,002 | 3,002 |
| Total | 15,364,063 | 15,375,067 |

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Selected Notes to the Condensed Interim Financial Statements for the period ended 30 June 2022

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

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

In thousands of KM

| | Carrying amount | 31 December 2021 Fair value |
|---|------------------------|--|
| Financial assets | | |
| <i>Financial assets measured at amortised cost:</i> | | |
| Cash in foreign currencies | 469,585 | 469,585 |
| Deposits with foreign banks | 3,945,097 | 3,936,151 |
| Special Drawing Rights with the IMF | 1,881 | 1,881 |
| Other financial assets | 3,349 | 3,349 |
| | 4,419,912 | 4,410,966 |
| <i>Financial assets measured at fair value through other comprehensive income- cost choice:</i> | | |
| Other investments | 27,813 | 27,813 |
| | 27,813 | 27,813 |
| Total | 4,447,725 | 4,438,779 |
| Financial liabilities | | |
| <i>Financial liabilities measured at amortised cost:</i> | | |
| Banknotes and coins in circulation | 6,923,818 | 6,923,818 |
| Deposits from banks | 7,219,617 | 7,203,407 |
| 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 | 15,561,634 |

Financial assets and financial liabilities that are not measured at fair value belong to Level 2 of fair value measurement as at the reporting dates, except for the debt instruments at amortised cost which belong to Level 1.

5. FINANCIAL RISK MANAGEMENT

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

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

5.1. Credit risk

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

Credit risk management is achieved through the selection of the counterparties with the investible credit rating level, by limiting terms and controlling the volume and dynamics of investments. Credit ratings are continuously monitored on a daily basis, ensuring that the collection of contractual cash flows is never disputed.

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 29 and 30).

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.1. 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 as at the reporting dates:

In thousands of KM

| | 2022 | | | | 2021 | | | |
|---|--------------|----------|----------|--------------|--------------|----------|----------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| 1. Deposits with foreign banks | | | | | | | | |
| As at 1 January | 913 | - | - | 913 | 807 | - | - | 807 |
| Increases in expected credit losses | 4,131 | - | - | 4,131 | 1,877 | - | - | 1,877 |
| Releases of expected credit losses | (88) | - | - | (88) | (73) | - | - | (73) |
| Releases due to derecognition of term deposits | (3,690) | - | - | (3,690) | (1,960) | - | - | (1,960) |
| As at 30 June | 1,266 | - | - | 1,266 | 651 | - | - | 651 |
| 2. Special Drawing Rights with the IMF | | | | | | | | |
| As at 1 January | - | - | - | - | - | - | - | - |
| Increases in expected credit losses | - | - | - | - | - | - | - | - |
| Releases of expected credit losses | - | - | - | - | - | - | - | - |
| As at 30 June | - | - | - | - | - | - | - | - |
| 3. Debt instruments at fair value through other comprehensive income | | | | | | | | |
| As at 1 January | 1,786 | - | - | 1,786 | 1,598 | - | - | 1,598 |
| Increases in expected credit losses | 448 | - | - | 448 | 336 | - | - | 336 |
| Releases of expected credit losses | (94) | - | - | (94) | (42) | - | - | (42) |
| Releases due to debt instruments matured | (376) | - | - | (376) | (156) | - | - | (156) |
| <i>Net (decrease) / increase during the period</i> | <i>(22)</i> | <i>-</i> | <i>-</i> | <i>(22)</i> | <i>138</i> | <i>-</i> | <i>-</i> | <i>138</i> |
| Releases due to debt instruments sold | (365) | - | - | (365) | (25) | - | - | (25) |
| As at 30 June | 1,399 | - | - | 1,399 | 1,711 | - | - | 1,711 |

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.1. Credit risk exposure (continued)

In thousands of KM

| | 2022 | | | | 2021 | | | |
|--|--------------|----------|------------|--------------|--------------|----------|------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| 4. Debt instruments at amortised cost | | | | | | | | |
| As at 1 January | - | - | - | - | - | - | - | - |
| Increases in expected credit losses | 225 | - | - | 225 | - | - | - | - |
| Releases of expected credit losses | (9) | - | - | (9) | - | - | - | - |
| As at 30 June | 216 | - | - | 216 | - | - | - | - |
| 5. Other financial assets | | | | | | | | |
| As at 1 January | 6 | - | 602 | 608 | 5 | - | 613 | 618 |
| Increases in expected credit losses | 6 | - | - | 6 | 4 | - | 1 | 5 |
| Releases of expected credit losses | (6) | - | - | (6) | (4) | - | (13) | (17) |
| As at 30 June | 6 | - | 602 | 608 | 5 | - | 601 | 606 |
| Total opening balance at 1 January | 2,705 | - | 602 | 3,307 | 2,410 | - | 613 | 3,023 |
| Total net increase / (release) in expected credit losses | 182 | - | - | 182 | (43) | - | (12) | (55) |
| Total closing balance at 30 June | 2,887 | - | 602 | 3,489 | 2,367 | - | 601 | 2,968 |

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.2. Credit risk concentration

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

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

In thousands of KM

| Classes of financial instruments | 30 June 2022 | | | | 31 December 2021 | | | |
|--|------------------|----------|----------|------------------|-------------------|----------|----------|-------------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Cash in foreign currencies | | | | | | | | |
| Gross carrying amount | 452,568 | - | - | 452,568 | 469,585 | - | - | 469,585 |
| Impairment | - | - | - | - | - | - | - | - |
| Carrying amount | 452,568 | - | - | 452,568 | 469,585 | - | - | 469,585 |
| Deposits with foreign banks | | | | | | | | |
| Gross carrying amount | 4,466,461 | - | - | 4,466,461 | 3,946,010 | - | - | 3,946,010 |
| Impairment | (1,266) | - | - | (1,266) | (913) | - | - | (913) |
| Carrying amount | 4,465,195 | - | - | 4,465,195 | 3,945,097 | - | - | 3,945,097 |
| Special Drawing Rights with the IMF | | | | | | | | |
| Gross carrying amount | 1,579 | - | - | 1,579 | 1,881 | - | - | 1,881 |
| Impairment | - | - | - | - | - | - | - | - |
| Carrying amount | 1,579 | - | - | 1,579 | 1,881 | - | - | 1,881 |
| Debt instruments at fair value through other comprehensive income | | | | | | | | |
| Gross carrying amount | 9,512,807 | - | - | 9,512,807 | 11,629,592 | - | - | 11,629,592 |
| Provisions for expected credit losses (recognized in other comprehensive income) | 1,399 | - | - | 1,399 | 1,786 | - | - | 1,786 |
| Gross carrying amount | 9,512,807 | - | - | 9,512,807 | 11,629,592 | - | - | 11,629,592 |

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.2. Credit risk concentration (continued)

In thousands of KM

| Classes of financial instruments | 30 June 2022 | | | | 31 December 2021 | | | |
|---|------------------|----------|----------|------------------|------------------|----------|----------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Debt instruments at amortised cost | | | | | | | | |
| Gross carrying amount | 1,168,830 | - | - | 1,168,830 | - | - | - | - |
| Impairment | (216) | - | - | (216) | - | - | - | - |
| Carrying amount | 1,168,614 | - | - | 1,168,614 | - | - | - | - |
| Other financial assets | | | | | | | | |
| Gross carrying amount | 3,261 | - | 602 | 3,863 | 3,355 | - | 602 | 3,957 |
| Impairment | (6) | - | (602) | (608) | (6) | - | (602) | (608) |
| Carrying amount | 3,255 | - | - | 3,255 | 3,349 | - | - | 3,349 |

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.2. Credit risk concentration (continued)

b) Maximum exposure to credit risk – Financial assets not subjected to impairment

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---------------------------|-------------------------|-----------------------------|
| Carrying amount | | |
| Monetary gold | 296,688 | 301,987 |
| Other investments | 27,813 | 27,813 |
| TOTAL | 324,501 | 329,800 |

Concentration per credit rating

The tables below present an analysis of the Central Bank's concentration of deposits with foreign banks, debt instruments at fair value through other comprehensive income and debt instruments at amortised cost according to the counterparty's composite credit rating as at the reporting dates:

Deposits with foreign banks

| In thousands of KM | Deposits with foreign banks | |
|---------------------------|------------------------------------|-----------------------------|
| Credit rating | 30 June 2022 | 31 December 2021 |
| AAA | 784,263 | 1,622,277 |
| AA+ | - | - |
| AA | 352,052 | 78,200 |
| AA- | - | - |
| A+ | 1,244,886 | 488,958 |
| A | 1,979,481 | 1,653,649 |
| A- | 102,018 | 102,166 |
| II ¹ | 3,761 | 760 |
| BBB+ | - | - |
| BBB | - | - |
| BBB- | - | - |
| Total | 4,466,461 | 3,946,010 |
| Impairment | (1,266) | (913) |
| TOTAL | 4,465,195 | 3,945,097 |

¹ International institutions

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Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.2. Credit risk concentration (continued)

Debt instruments at fair value through other comprehensive income

In thousands of KM

| Credit rating | 30 June 2022 | 31 December 2021 |
|----------------------|-------------------------|-----------------------------|
| AAA | 2,852,360 | 2,523,051 |
| AA+ | 1,077,258 | 1,349,129 |
| AA | 2,816,588 | 3,986,839 |
| AA- | 913,895 | 1,672,536 |
| A+ | - | - |
| A | - | - |
| A- | 1,219,103 | 1,428,865 |
| BBB+ | - | - |
| BBB | 633,603 | 669,172 |
| BBB- | - | - |
| TOTAL | 9,512,807 | 11,629,592 |

Debt instruments at amortised cost

In thousands of KM

| Credit rating | 30 June 2022 | 31 December 2021 |
|----------------------|-------------------------|-----------------------------|
| AAA | 140,891 | - |
| AA+ | 280,673 | - |
| AA | 218,937 | - |
| AA- | 144,939 | - |
| A+ | - | - |
| A | 41,578 | - |
| A- | 190,153 | - |
| BBB+ | - | - |
| BBB | 151,659 | - |
| BBB- | - | - |
| Total | 1,168,830 | - |
| Impairment | (216) | - |
| TOTAL | 1,168,614 | - |

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. 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.

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

As at 30 June 2022, the exposure of the Central Bank's foreign currency reserves, including fluctuations of the prices of financial instruments and foreign exchange rates against the KM, equals to KM 128,484 thousand (31 December 2021: KM 65,070 thousand), which represents 0.81% of the total financial assets (31 December 2021: 0.40% of the total financial assets).

Value at risk has been increased primarily due to significant changes in interest rates, i.e., in the yields on debt instruments of the Central bank's foreign currency reserve portfolio as well as due to market price changes of monetary gold.

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|--|-------------------------|-----------------------------|
| Interest rate risk | 111,573 | 51,622 |
| Risk of change in EUR price of monetary gold | 16,624 | 13,138 |
| Foreign exchange risk | 287 | 310 |
| Total VaR | 128,484 | 65,070 |

5.2.1. Foreign exchange risk

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.2. Interest rate risk

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

The Central Bank uses a modified duration of debt instruments at fair value through other comprehensive income as a key measure of interest rate risk exposure. During the reporting period, the modified duration was further shortened to 1.52 as at 30 June 2022 (31 December 2021: 2.19), with the aim of reducing interest rate risk and further improving the stability of the currency board.

Eurozone bond yields were increased significantly in the reporting period, primarily due to inflationary expectations. Announcements from the ECB representatives regarding the inflation to be likely remained high for longer period than previously expected, gave a strong boost to Eurozone bond yield rise in early and mid-February 2022. An additional stimulus to rising yield was provided by the announcements of the ECB's future activities regarding the ECB reference interest rate increase as well as market expectations in this regard including the increase in the reference interest rates of the Fed (The Federal Reserve System) and the Bank of England. Additional factors affecting the volatility of Eurozone bond yields in the reporting period were news related to further developments in geopolitical tensions at the global level.

In June 2022, the ECB announced that the inflation was still above the targeted level and that it will remain high “for some time”, primarily due to rising energy prices, rising food and other goods and services prices, so no conditions for further economic growth and recovery were met. Therefore, the ECB announced that it will ensure that the inflation is returned to the targeted level of 2% in the medium term and that, starting from the 1 July 2022, net purchases of the debt instruments will not be carried out as a part of the Asset Purchase Program. Besides that, the ECB announced that it will increase key interest rates (interest rate on the main refinancing operations, interest rate on the marginal lending facility and interest rate on the deposit facility) by 25 basis points in July and again in September 2022 and that the further dynamics of the interest rates increase will depend on the inflation trends.

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.2. Interest rate risk (continued)

The following tables show the Central Bank's exposure to interest rate risk as at the 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:

| 30 June 2022 | | | | | | |
|---|------------------|------------------|---------------|------------------|--------------------|-------------------|
| In thousands of KM | Up to 3 | From 3 | From | Over 3 | Non- | Total |
| | months | to 12 | 1 to 3 | years | interest | |
| | | months | years | years | bearing | |
| Cash in foreign currencies | - | - | - | - | 452,568 | 452,568 |
| Deposits with foreign banks | 4,192,686 | 273,785 | - | - | (1,276) | 4,465,195 |
| Special Drawing Rights with the IMF | 1,579 | - | - | - | - | 1,579 |
| Debt instruments at fair value through other comprehensive income | 3,182,708 | 6,285,467 | - | - | 44,632 | 9,512,807 |
| Monetary gold | - | - | - | - | 296,688 | 296,688 |
| Debt instruments at amortised cost | - | - | 57,645 | 1,109,142 | 1,827 | 1,168,614 |
| Other financial assets | - | - | - | - | 3,255 | 3,255 |
| Other investments | - | - | - | - | 27,813 | 27,813 |
| Total financial assets | 7,376,973 | 6,559,252 | 57,645 | 1,109,142 | 825,507 | 15,928,519 |
| Banknotes and coins in circulation | - | - | - | - | 7,221,991 | 7,221,991 |
| Deposits from banks | 5,102,322 | - | - | - | 1,726,367 | 6,828,689 |
| Deposits from the Government and other public institutions | - | - | - | - | 1,310,381 | 1,310,381 |
| Other financial liabilities | - | - | - | - | 3,002 | 3,002 |
| Total financial liabilities | 5,102,322 | - | - | - | 10,261,741 | 15,364,063 |
| INTEREST RATE GAP | 2,274,651 | 6,559,252 | 57,645 | 1,109,142 | (9,436,234) | 564,456 |

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Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.2. Interest rate risk (continued)

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

5.3. Liquidity risk

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

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

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Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3. Liquidity risk (continued)

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

| 30 June 2022 | | | | | | |
|--|---------------------------|------------------------------------|----------------------------------|-------------------------|---|-------------------|
| In thousands of KM | Up to 3 months | From 3 to 12 months | From 1 to 3 years | Over 3 years | Without specified maturity | Total |
| Banknotes and coins in circulation | 7,221,991 | - | - | - | - | 7,221,991 |
| Deposits from banks | 6,828,689 | - | - | - | - | 6,828,689 |
| Deposits from the Government and other public institutions | 1,310,381 | - | - | - | - | 1,310,381 |
| Other financial liabilities | 3,002 | - | - | - | - | 3,002 |
| TOTAL FINANCIAL LIABILITIES | 15,364,063 | - | - | - | - | 15,364,063 |

| 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 |

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Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

6. 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 the type of currency:

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|--------------------------------------|-------------------------|-----------------------------|
| Cash in foreign currencies in vaults | | |
| EUR | 452,529 | 469,548 |
| USD | 21 | 20 |
| GBP | 18 | 17 |
| TOTAL | 452,568 | 469,585 |

During the reporting period the Central Bank purchased cash in EUR in the amount of KM 293,375 thousand from foreign bank in order to fulfill its legal obligation to guarantee the convertibility of KM for EUR, i.e., to execute transactions of purchase and sale of KM for EUR without restrictions.

7. 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.

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---------------------------|-------------------------|-----------------------------|
| Term deposits: | | |
| EUR | 3,803,034 | 2,592,738 |
| Impairment | (1,166) | (764) |
| Total | 3,801,868 | 2,591,974 |
| Demand deposits: | | |
| EUR | 657,067 | 1,349,790 |
| USD | 2,218 | 1,171 |
| GBP | 2,101 | 2,202 |
| CHF | 2,041 | 109 |
| | 663,427 | 1,353,272 |
| Impairment | (100) | (149) |
| Total | 663,327 | 1,353,123 |
| TOTAL | 4,465,195 | 3,945,097 |

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

7. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

Deposits with foreign banks include net negative accrued interest in the amount of KM 1,276 thousand as at 30 June 2022 (31 December 2021: Included negative accrued interest in the amount of KM 1,387 thousand).

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|----------------------------|-------------------------|-----------------------------|
| Up to one month | 2,980,141 | 1,055,372 |
| From one to two months | 549,042 | 457,180 |
| From two to three months | - | 698,391 |
| From three to four months | - | 95,591 |
| From four to twelve months | 273,851 | 286,204 |
| Total | 3,803,034 | 2,592,738 |
| Impairment | (1,166) | (764) |
| TOTAL | 3,801,868 | 2,591,974 |

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|--------------------------------------|-------------------------|-----------------------------|
| Foreign commercial banks | 2,373,760 | 1,477,588 |
| Foreign central banks | 2,088,940 | 2,467,662 |
| International financial institutions | 3,761 | 760 |
| Total | 4,466,461 | 3,946,010 |
| Impairment (Note 5.1.1) | (1,266) | (913) |
| TOTAL | 4,465,195 | 3,945,097 |

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

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

7. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

Deposits with foreign banks, analysed by the country where the funds are invested in, are as follows:

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---------------------------|-------------------------|-----------------------------|
| Slovakia | 1,237,932 | 1,148,980 |
| Switzerland | 1,059,665 | 382,555 |
| France | 826,341 | 567,158 |
| Great Britain | 741,549 | 504,668 |
| Germany | 307,281 | 914,686 |
| Luxembourg | 234,561 | 368,861 |
| Netherlands | 58,650 | 58,650 |
| USA | 482 | 452 |
| Total | 4,466,461 | 3,946,010 |
| Impairment | (1,266) | (913) |
| TOTAL | 4,465,195 | 3,945,097 |

8. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt instruments at fair value through other comprehensive income represent the Central Bank's 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 | 30 June 2022 | 31 December 2021 |
|--|-------------------------|-----------------------------|
| Coupon debt instruments | 7,287,425 | 7,931,557 |
| Accrued interest on coupon debt instruments | 44,258 | 57,320 |
| Total | 7,331,683 | 7,988,877 |
| Discount debt instruments | 2,180,750 | 3,628,065 |
| Accrued premium on discount debt instruments | 374 | 12,650 |
| Total | 2,181,124 | 3,640,715 |
| TOTAL | 9,512,807 | 11,629,592 |

As at 30 June 2022, provisions for expected credit losses for debt instruments, recognized in other comprehensive income, amount to KM 1,399 thousand (31 December 2021: KM 1,786 thousand). During the reporting period, the net release of provisions for expected credit losses recognized in profit or loss, amounts to KM 22 thousand (01/01-30/06/2021: net increase amounted to KM 138 thousand). For more information about these changes in the reporting period see Notes 5.1.1. and 21.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

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

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

| | 30 June 2022 | | 31 December 2021 | |
|--------------|---------------------------|---------------|---------------------------|---------------|
| | In thousands of KM | % | In thousands of KM | % |
| France | 2,816,588 | 29.61 | 3,986,839 | 34.28 |
| Germany | 2,344,860 | 24.65 | 1,799,664 | 15.47 |
| Spain | 1,219,103 | 12.82 | 1,428,865 | 12.29 |
| Belgium | 872,597 | 9.17 | 1,672,536 | 14.38 |
| Austria | 667,156 | 7.01 | 902,759 | 7.76 |
| Italy | 633,603 | 6.66 | 669,171 | 5.75 |
| Netherlands | 507,500 | 5.33 | 723,387 | 6.22 |
| Finland | 410,102 | 4.31 | 446,371 | 3.85 |
| Ireland | 41,298 | 0.43 | - | - |
| TOTAL | 9,512,807 | 100.00 | 11,629,592 | 100.00 |

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 | For the period | | | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | 01/01 - 30/06 2021 |
| As at | 10,551,265 | 10,058,883 | 11,629,592 | 9,601,315 |
| Purchases during the period | 1,355,000 | 1,297,067 | 2,865,536 | 2,549,687 |
| Sales during the period | (1,110,988) | - | (2,259,646) | (284,941) |
| Interest income recognised during the period (Note 16) | 5,366 | 8,546 | 12,346 | 17,180 |
| Effects of negative interest rates recognised during the period (Note 16) | (8,041) | (5,747) | (17,370) | (10,561) |
| Maturities of debt instruments | (1,141,598) | (766,906) | (2,411,421) | (1,189,150) |
| Maturities of coupons | (27,398) | (31,074) | (45,131) | (56,082) |
| Net unrealised change in fair value during the period | (110,801) | (26,322) | (261,103) | (93,003) |
| Transaction costs | 2 | 3 | 4 | 5 |
| As at 30 June | 9,512,807 | 10,534,450 | 9,512,807 | 10,534,450 |

In the reporting period, significant decrease of fair value of debt instruments at fair value through other comprehensive income has occurred due to market price falls of debt instruments. The circumstances in which the foreign currency reserves have been invested are disclosed in Note 2.7.

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

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

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

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---------------------------|-------------------------|-----------------------------|
| Up to 3 months | 1,384,134 | 1,114,409 |
| From 3 to 12 months | 2,141,045 | 4,093,847 |
| From 1 to 3 years | 4,915,252 | 2,958,887 |
| Over 3 years | 1,072,376 | 3,462,449 |
| TOTAL | 9,512,807 | 11,629,592 |

9. MONETARY GOLD

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

In thousands KM

| As at | Quantity of ounces | Price per ounce in KM | Fair value of monetary gold as at |
|------------------|-------------------------------|----------------------------------|--|
| 30 June 2022 | 88,000 | 3,371 | 296,688 |
| 31 December 2021 | 96,000 | 3,146 | 301,987 |
| 30 June 2021 | 96,000 | 2,920 | 280,301 |

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

| In thousands of KM | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | For the period 01/01 - 30/06 2021 |
|---|-------------------------------|-------------------------------|-------------------------------|--|
| As at | 301,330 | 273,284 | 301,987 | 291,561 |
| Inflows from sale of monetary gold | - | - | (28,477) | - |
| Net unrealized change in fair value during the period | (4,642) | 7,017 | 23,178 | (11,260) |
| As at 30 June | 296,688 | 280,301 | 296,688 | 280,301 |

During March 2022, the Central Bank sold a smaller quantity of ounces of monetary gold and realised the net gain in the amount of KM 11,489 thousand. For more information see Note 19.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

10. DEBT INSTRUMENTS AT AMORTISED COST

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

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-----------------------------|
| Coupon debt instruments | 1,167,003 | - |
| Accrued interest on coupon debt instruments | 1,827 | - |
| Total | 1,168,830 | - |
| Impairment | (216) | - |
| TOTAL | 1,168,614 | - |

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

| | 30 June 2022 | | 31 December 2021 | |
|--------------|---------------------------|---------------|---------------------------|----------|
| | In thousands of KM | % | In thousands of KM | % |
| France | 218,938 | 18.73 | - | - |
| Spain | 190,153 | 16.27 | - | - |
| Austria | 188,479 | 16.13 | - | - |
| Italy | 151,659 | 12.98 | - | - |
| Finland | 92,193 | 7.89 | - | - |
| Belgium | 90,700 | 7.76 | - | - |
| Germany | 59,172 | 5.06 | - | - |
| Netherlands | 54,858 | 4.69 | - | - |
| Ireland | 54,239 | 4.64 | - | - |
| Slovakia | 41,578 | 3.56 | - | - |
| Luxembourg | 26,861 | 2.29 | - | - |
| Total | 1,168,830 | 100.00 | - | - |
| Impairment | (216) | | - | - |
| TOTAL | 1,168,614 | | - | - |

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

10. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)

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

| In thousands of KM | For the period | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | 01/01 - 30/06 2021 |
| As at | 717,478 | - | - | - |
| Purchases during the period | 448,854 | - | 1,166,137 | - |
| Interest income recognised during the period (Note 16) | 2,334 | - | 2,691 | - |
| Net impairment during the period | (53) | - | (216) | - |
| Transaction costs | 1 | - | 2 | - |
| As at 30 June | 1,168,614 | - | 1,168,614 | - |

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---------------------|------------------|---------------------|
| Up to 3 months | - | - |
| From 3 to 12 months | - | - |
| From 1 to 3 years | 57,778 | - |
| Over 3 years | 1,111,052 | - |
| Total | 1,168,830 | - |
| Impairment | (216) | - |
| TOTAL | 1,168,614 | - |

11. OTHER ASSETS

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|--|-----------------|---------------------|
| Receivables from domestic banks | 2,119 | 2,203 |
| Giro accounts | 788 | 682 |
| Receivables from employee based on domestic currency deficit | 600 | 600 |
| Other miscellaneous financial assets | 356 | 472 |
| Total | 3,863 | 3,957 |
| Impairment | (608) | (608) |
| Total other financial assets | 3,255 | 3,349 |
| Prepaid expenses for banknotes and coins production | 9,227 | 11,164 |
| Numismatic collections | 986 | 981 |
| Prepaid expenses for administrative operations | 762 | 1,194 |
| Other miscellaneous nonfinancial assets | 247 | 239 |
| Total other nonfinancial assets | 11,222 | 13,578 |
| TOTAL | 14,477 | 16,927 |

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

12. BANKNOTES AND COINS IN CIRCULATION

The quantities and the amounts of banknotes and coins in circulation are presented in the following table:

| | 30 June 2022 | | 31 December 2021 | |
|---------------|--------------------|------------------------------|---------------------|------------------------------|
| | Pieces | Amount in thousands of KM | Pieces | Amount in thousands of KM |
| Coins | 456,864,913 | 233,403 | 441,410,004 | 224,524 |
| Banknotes | 101,361,574 | 6,988,588 | 97,106,642 | 6,699,294 |
| UKUPNO | 558,226,487 | 7,221,991 | 538,516,646 | 6,923,818 |

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

| In thousands of KM | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | 01/01 - 30/06 2021 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Banknotes and coins in circulation as at | 7,333,713 | 6,222,255 | 6,923,818 | 6,172,457 |
| (Decrease) / increase in value of banknotes and coins in circulations | (111,722) | 219,031 | 298,173 | 268,829 |
| Banknotes and coins in circulation as at | 7,221,991 | 6,441,286 | 7,221,991 | 6,441,286 |

13. DEPOSITS FROM BANKS

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

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---|------------------|---------------------|
| Deposits of domestic commercial banks | 6,827,868 | 7,218,902 |
| Reserve accounts of the Central Bank organizational units | 788 | 682 |
| Special deposits of domestic commercial banks - blocked funds | 33 | 33 |
| TOTAL | 6,828,689 | 7,219,617 |

Deposits from domestic commercial banks include negative accrued remuneration on the basis of required reserve policy in the amount of KM 2,860 thousand as at 30 June 2022 (31 December 2021: KM 2,498 thousand).

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

| In thousands of KM | 21/06 - 30/06/2022 | 21/12 - 31/12/2021 |
|--|--------------------|--------------------|
| Average required reserve | 2,970,829 | 2,989,873 |
| Amounts exceeding the required reserve | 3,622,894 | 4,097,112 |
| TOTAL | 6,593,723 | 7,086,985 |

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14. DEPOSITS FROM THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-----------------------------|
| Budgetary deposits of BH institutions | 750,140 | 693,533 |
| Deposits of other public institutions | 317,410 | 304,875 |
| Deposits of other local governments and government institutions | 242,733 | 279,323 |
| Deposits – BH external debt | 75 | 154 |
| Deposit account under the IMF transactions | 23 | 151,711 |
| TOTAL | 1,310,381 | 1,429,596 |

15. OTHER LIABILITIES

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-----------------------------|
| IMF Accounts No, 1 and 2 (Note 30) | 2,293 | 2,242 |
| Accrued, but non-invoiced liabilities | 508 | 4,114 |
| Suppliers | 107 | 1,560 |
| World Bank deposits | 69 | 89 |
| Other financial liabilities | 25 | 18 |
| Total other financial liabilities | 3,002 | 8,023 |
| Non-financial liabilities on various bases | 58 | 87 |
| Collected and deferred income | 36 | 52 |
| Total other nonfinancial liabilities | 94 | 139 |
| TOTAL | 3,096 | 8,162 |

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

16. NET INTEREST INCOME

| In thousands of KM | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | For the period 01/01 - 30/06 2021 |
|--|-------------------------------|-------------------------------|-------------------------------|--|
| Interest income arising from: | | | | |
| Effects of negative deposit interest rates on deposits from domestic commercial banks | 8,528 | 4,794 | 17,644 | 8,685 |
| Debt instruments at fair value through other comprehensive income (Note 8) | 5,366 | 8,546 | 12,346 | 17,180 |
| Debt instruments at amortised cost (Note 10) | 2,334 | - | 2,691 | - |
| Financial assets at amortised cost | 41 | - | 42 | - |
| Total | 16,269 | 13,340 | 32,723 | 25,865 |
| Interest expense arising from: | | | | |
| Effects of negative interest rates from debt instruments at fair value through other comprehensive income (Note 8) | (8,041) | (5,747) | (17,370) | (10,561) |
| Effects of negative interest rates from deposits with foreign banks | (5,260) | (4,409) | (10,462) | (9,058) |
| Total | (13,301) | (10,156) | (27,832) | (19,619) |
| | | | | |
| Net interest income | 2,968 | 3,184 | 4,891 | 6,246 |

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

16. NET INTEREST INCOME (CONTINUED)

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

| In thousands of KM | For the period | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | 01/01 - 30/06 2021 |
| Financial assets at amortised cost | | | | |
| Interest income | 2,375 | - | 2,733 | - |
| Effects of negative interest rates from deposits with foreign banks | (5,260) | (4,409) | (10,462) | (9,058) |
| Total | (2,885) | (4,409) | (7,729) | (9,058) |
| Financial assets at fair value through other comprehensive income | | | | |
| Interest income | 5,366 | 8,546 | 12,346 | 17,180 |
| Effects of negative interest rates from debt instruments at fair value through other comprehensive income | (8,041) | (5,747) | (17,370) | (10,561) |
| Total | (2,675) | 2,799 | (5,024) | 6,619 |
| Financial liabilities at amortised cost | | | | |
| Effects of negative deposit interest rates on deposits from domestic commercial banks | 8,528 | 4,794 | 17,644 | 8,685 |
| Interest expenses | - | - | - | - |
| Total | 8,528 | 4,794 | 17,644 | 8,685 |
| Net interest income | 2,968 | 3,184 | 4,891 | 6,246 |

The base for calculation of interest expense respectively effects of negative deposit interest rates on deposits from 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.

The required reserve rate applied by the Central Bank on the required reserve base amounts to 10% and is equally applied for all domestic commercial banks.

The Central Bank calculates the remuneration on the amount of required reserve funds generated from the foreign currency base and the domestic currency with currency clause base in the period 01/01 – 30/06/2022. During the period 01/01 - 31/05/2022 the Central Bank did not calculate the remuneration on the amount of required reserve funds and started with its application in the period 01/06 - 30/06/2022. The remuneration is also calculated on the amounts exceeding the required reserve funds in both reporting periods.

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 in both reporting periods.

In the period 01/01 - 30/06/2022 the Central Bank's remuneration rate is further reduced by 10 basis points on the required reserves amounts. In the period 01/01 - 31/05/2021 the calculation of remuneration on the required reserves amounts was not applied while in the period 01/06 - 30/06/2022 the Central Bank started to calculate remuneration on the required reserve amounts at the rate further reduced by 10 basis points.

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Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

16. NET INTEREST INCOME (CONTINUED)

In the period 01/01 - 30/06/2022 the Central Bank's remuneration rate is further reduced by 25 basis points on the amounts exceeding the required reserves, while in the period 01/01 - 30/06/2021 negative European Central Bank deposit facility rate was applied without additional corrections by the Central Bank.

Negative European Central Bank deposit facility rate amounts to 0.50% in the reporting periods.

During the reporting periods, the Central Bank's negative remuneration rates amount to:

| Base for calculation of remuneration | Period | The Central Bank remuneration rate |
|--|---------------|---|
| 2022 | | |
| Required reserves amounts | | |
| <i>Domestic currency base</i> | 01/01 - 30/06 | 0.00% |
| <i>Foreign currency base</i> | 01/01 - 30/06 | (0.60)% |
| <i>Domestic currency with currency clause base</i> | 01/01 - 30/06 | (0.60)% |
| Amounts exceeding the required reserves | 01/01 - 30/06 | (0.75)% |
| 2021 | | |
| Required reserves amounts | | |
| <i>Domestic currency base</i> | 01/01 - 30/06 | 0.00% |
| <i>Foreign currency base</i> | 01/01 - 31/05 | 0.00% |
| <i>Domestic currency with currency clause base</i> | 01/01 - 31/05 | 0.00% |
| <i>Foreign currency base</i> | 01/06 - 30/06 | (0.60)% |
| <i>Domestic currency with currency clause base</i> | 01/06 - 30/06 | (0.60)% |
| Amounts exceeding the required reserves | 01/01 - 30/06 | (0.50)% |

The remuneration rates applied by the Central Bank arising from the required reserves instrument are determined solely to cover its opportunity costs that are generated from the holding deposit funds of domestic commercial banks and for the purpose of strengthening the domestic currency.

The effects of negative deposit interest rates from deposits with domestic commercial banks amount to KM 3,987 thousand arising from foreign currency base and the domestic currency with currency clause base and KM 13,657 thousand arising from amounts exceeding the required reserve funds in the period 01/01 - 30/06/2022 (01/01 - 30/06/2021: Amounted to KM 674 thousand arising from foreign currency base and the domestic currency with currency clause base and KM 8,011 thousand arising from amounts exceeding the required reserve funds).

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

The effects of negative interest rates on deposits with foreign banks include the amount of KM 8,808 thousand on term deposits and the amount of KM 1,654 thousand on demand deposits in the period 01/01 - 30/06/2022 (In the period 01/01 - 30/06/2021 included the amount of KM 7,040 thousand on term deposits and the amount of KM 2,018 thousand on demand deposits).

The average negative effective yield rate on deposits with foreign banks amounts to 0.51 % in the period 01/01 - 30/06/2022 (In the period 01/01 - 30/06/2021 the average negative effective interest rate amounted to 0.54%).

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Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

16. NET INTEREST INCOME (CONTINUED)

The average negative effective yield rate on debt instruments at fair value through other comprehensive income amounts to 0.29% in the period 01/01 - 30/06/2022 (In the period 01/01 - 30/06/2021 the average effective yield rate amounted to 0.17%).

The average effective yield rate on debt instruments at amortised cost amounts to 0.93% in the period 01/01 - 30/06/2022 (In the period 01/01 - 30/06/2021 the Central Bank did not hold debt instruments at amortised cost).

17. NET FEE AND COMMISSION INCOME

| In thousands KM | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | For the period 01/01 - 30/06 2021 |
|---|-------------------------------|-------------------------------|-------------------------------|--|
| Fee and commission income arising from: | | | | |
| Services for domestic banks | 4,930 | 4,639 | 10,507 | 8,939 |
| Services for the Government and other non-banking clients | 463 | 442 | 876 | 822 |
| Total | 5,393 | 5,081 | 11,383 | 9,761 |
| Fee and commission expenses arising from: | | | | |
| Custody and other expenses for debt instruments | (201) | (188) | (412) | (364) |
| Transactions with foreign banks | (8) | (8) | (16) | (16) |
| Other fee and commission expenses | (1) | (1) | (3) | (3) |
| Total | (210) | (197) | (431) | (383) |
| Net fee and commission income | 5,183 | 4,884 | 10,952 | 9,378 |

As disclosed in the latest annual financial statements, the Central Bank applied different tariffs for its services during the reporting periods presented.

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

| In thousands of KM | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | For the period 01/01 - 30/06 2021 |
|---------------------------|-------------------------------|-------------------------------|-------------------------------|--|
| Realised gains | 5,911 | - | 14,277 | 2,023 |
| Realised losses | (18,089) | - | (24,436) | - |
| TOTAL | (12,178) | - | (10,159) | 2,023 |

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

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

19. NET REALISED GAINS FROM SALE OF MONETARY GOLD

Gains arising from fair value changes of monetary gold recognised in other comprehensive income, within fair value reserves for monetary gold, are recognised as realized gains in profit or loss account at the sale date. Net realised gains from the sale of 8,000 ounces of monetary gold carried out in March 2022 amount to KM 11,489 thousand.

20. NET FOREIGN EXCHANGE GAINS

| In thousands of KM | 01/04 - 30/06 | 01/04 - 30/06 | 01/01 - 30/06 | For the period |
|---------------------------------------|---------------|---------------|---------------|-----------------------|
| | 2022 | 2021 | 2022 | 01/01 - 30/06 2021 |
| Net unrealised foreign exchange gains | 92 | 223 | 144 | 413 |
| Net realised foreign exchange gains | 8 | 68 | 100 | 167 |
| TOTAL | 100 | 291 | 244 | 580 |

21. NET (DECREASE) / INCREASE OF IMPAIRMENT ON FINANCIAL ASSETS

| In thousands of KM | 01/04 - 30/06 | 01/04 - 30/06 | 01/01 - 30/06 | For the period |
|---|---------------|---------------|---------------|-----------------------|
| | 2022 | 2021 | 2022 | 01/01 - 30/06 2021 |
| Net (increase) / release of impairment for deposits with foreign banks | (152) | 134 | (353) | 156 |
| Net release / (increase) in provisions for expected credit losses for debt instruments at fair value through other comprehensive income | 10 | (33) | 22 | (138) |
| Net (increase) of impairment for debt instruments at amortised cost | (53) | - | (216) | - |
| Net release of impairment for other financial assets | 1 | 13 | - | 12 |
| TOTAL | (194) | 114 | (547) | 30 |

22. OTHER INCOME

| In thousands of KM | 01/04 - 30/06 | 01/04 - 30/06 | 01/01 - 30/06 | For the period |
|---------------------------|---------------|---------------|---------------|-----------------------|
| | 2022 | 2021 | 2022 | 01/01 - 30/06 2021 |
| Dividend income | 721 | 1,297 | 721 | 1,297 |
| Other (expenses) / income | (30) | 31 | 66 | 27 |
| TOTAL | 691 | 1,328 | 787 | 1,324 |

In June 2021, the Central Bank received a dividend from BIS shares amounting to KM 721 thousand.

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Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

23. PERSONNEL EXPENSES

| In thousands of KM | 01/04 - 30/06 | 01/04 - 30/06 | 01/01 - 30/06 | For the period |
|--|---------------|---------------|---------------|-----------------------|
| | 2022 | 2021 | 2022 | 01/01 - 30/06 2021 |
| Salaries | 2,359 | 2,451 | 4,741 | 4,894 |
| Contributions and other fees on salaries | 1,317 | 1,397 | 2,650 | 2,788 |
| Other employee benefits | 876 | 920 | 1,267 | 1,318 |
| Contributions and other fees on other employees' benefits | 296 | 342 | 389 | 450 |
| Provisions for severance payments and jubilee awards, net (release) / increase | (1) | 3 | 13 | 4 |
| TOTAL | 4,847 | 5,113 | 9,060 | 9,454 |

Personnel expenses include KM 1,723 thousand of defined pension contributions paid to the public pension funds in BH (01/01 – 30/06/2021: KM 1,805 thousand).

The average number of employees in the reporting period amounts to 355 (01/01 – 30/06/2021: 371 employees).

24. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

| In thousands of KM | 01/04 - 30/06 | 01/04 - 30/06 | 01/01 - 30/06 | For the period |
|---|---------------|---------------|---------------|-----------------------|
| | 2022 | 2021 | 2022 | 01/01 - 30/06 2021 |
| Payment systems maintenance expenses | 438 | 415 | 871 | 830 |
| Overhead expenses | 210 | 212 | 430 | 455 |
| IT infrastructure expenses | 206 | 214 | 400 | 407 |
| Access to official services expenses | 170 | 168 | 330 | 321 |
| Fixed assets maintenance expenses | 170 | 140 | 222 | 195 |
| Other administrative and operating expenses | 421 | 487 | 954 | 827 |
| TOTAL | 1,615 | 1,636 | 3,207 | 3,035 |

25. COSTS OF PRODUCTION OF BANKNOTES AND COINS

| In thousands of KM | 01/04 - 30/06 | 01/04 - 30/06 | 01/01 - 30/06 | For the period |
|---|---------------|---------------|---------------|-----------------------|
| | 2022 | 2021 | 2022 | 01/01 - 30/06 2021 |
| Costs of production and design of banknotes | 475 | 648 | 1,154 | 1,253 |
| Costs of production and design of coins | 377 | 352 | 786 | 543 |
| TOTAL | 852 | 1,000 | 1,940 | 1,796 |

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

26. EQUITY

The structure of equity is presented in the following table:

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-----------------------------|
| Initial capital | 25,000 | 25,000 |
| Fair value reserves for debt and equity instruments | (92,052) | 158,914 |
| Fair value reserves for monetary gold | 109,818 | 98,129 |
| Other reserves | 31,300 | 31,300 |
| General reserves (Retained earnings) | 548,100 | 548,100 |
| Net profit for the period | 2,003 | - |
| TOTAL | 624,169 | 861,443 |

As at the reporting date, the equity of the Central Bank has decreased compared to the balance at 31 December 2021 as the result of the market yield increase on the financial markets, which affected the cumulative balance of fair value reserves for debt instruments. The decline in the fair value reserves is the reflection of the Central Bank's debt instruments market price changes and does not withdraw any actual loss for the Central Bank nor threatens the collection of contractual cash flows from debt instruments. As at the reporting date, the capitalisation level of the Central Bank is sufficiently high enough to absorb temporary increases of market yields and/or decreases of the gold market prices in the foreign currency reserves portfolio. More information about the Central Bank's credit risk management is disclosed in the Note 5.1.2.

27. CASH AND CASH EQUIVALENTS

For the purposes of Cash Flow Statement, cash and cash equivalents comprise of:

| In thousands of KM | 30 June 2022 | 30 June 2021 |
|---|-------------------------|-------------------------|
| Foreign currency deposits with maturity up to three months or less from the date of acquisition | 3,529,183 | 1,718,680 |
| Foreign currency demand deposits | 663,427 | 668,842 |
| Cash in foreign currencies | 452,568 | 436,429 |
| Special Drawing Rights with the IMF | 1,579 | 4,175 |
| Giro accounts | 788 | 846 |
| Total | 4,647,545 | 2,828,972 |
| Impairment | (1,234) | (579) |
| TOTAL | 4,646,311 | 2,828,393 |

28. RELATED PARTIES TRANSACTIONS

In the normal course of its operations, the Central Bank enters into transactions with related parties. Having in mind that the Central Bank has been established by a Legal Act passed by 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.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

28. RELATED PARTIES TRANSACTIONS (CONTINUED)

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

In thousands of KM

| As at 30 June 2022 | BH Ministry of Finance and Treasury | BH Deposit Insurance Agency | BH Indirect Taxation Authority | Total |
|-------------------------------|--|--|---|--------------|
| ASSETS | | | | |
| Other assets | 12 | 4 | 12 | 28 |
| TOTAL | 12 | 4 | 12 | 28 |

LIABILITIES

| | | | | |
|--------------------------|----------------|----------------|----------------|------------------|
| Deposits from depositors | 747,664 | 277,880 | 182,288 | 1,207,832 |
| TOTAL | 747,664 | 277,880 | 182,288 | 1,207,832 |

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 |

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

In thousands of KM

| | 01/04 - 30/06 2022 | 01/04 - 30/06 2021 | 01/01 - 30/06 2022 | For the period 01/01 - 30/06 2021 |
|-------------------------------------|-------------------------------|-------------------------------|-------------------------------|--|
| Fee and commission income | | | | |
| BH Ministry of Finance and Treasury | 31 | 13 | 61 | 17 |
| BH Deposit Insurance Agency | 25 | 24 | 37 | 27 |
| BH Indirect Taxation Authority | 32 | 26 | 52 | 27 |
| TOTAL | 88 | 63 | 150 | 71 |

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 the Notes 29 and 30.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

28. RELATED PARTIES TRANSACTIONS (CONTINUED)

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 key management members, in the period 01/01 - 30/06/2022, amounts to KM 478 thousand, out of which KM 300 thousand is related to salaries and other remuneration and KM 178 thousand is related to taxes and contributions (In the period 01/01 - 30/06/2021, out of the total amount of KM 483 thousand, the amount of KM 302 thousand was related to salaries and other remunerations and KM 181 thousand was related to taxes and contribution).

29. 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 organizations. As these accounts do not represent either assets or liabilities of the Central Bank, they have not been included within the Central Bank's statement of financial position.

Off-balance sheet 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 deposits consist of:

| In thousands of KM | 30 June 2022 | 31 December 2021 |
|---|-------------------------|-----------------------------|
| Deposits of the Council of Ministers of BH: | 11,453 | 8,805 |
| <i>Deposits of the Council of Ministers of BH on the basis of succession</i> | 47 | 44 |
| <i>Deposits of the Council of Ministers of BH regarding the servicing of foreign debt</i> | 9,176 | 6,923 |
| <i>Deposits of the Council of Ministers of BH regarding the Budget of BH institutions</i> | 1,938 | 1,567 |
| <i>Other deposits of the Council of Ministers of BH</i> | 292 | 271 |
| Deposits of other residents: | 9,287 | 7,700 |
| <i>Deposits - Retirement allowance from Germany</i> | 225 | 72 |
| <i>Deposit accounts of banks</i> | 9,062 | 7,628 |
| Deposits of residents | 20,740 | 16,505 |
| Cash account – Deposit Insurance Agency of BH | 12,326 | 40,910 |
| Total – State public institutions | 12,326 | 40,910 |
| TOTAL | 33,066 | 57,415 |

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 in the table. As at 30 June 2022 the total of these funds amount to KM 11,453 thousand (31 December 2021: KM 8,805 thousand).

30. BOSNIA AND HERZEGOVINA MEMBERSHIP WITH THE INTERNATIONAL MONETARY FUND

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

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed interim financial statements for the period ended 30 June 2022

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

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.

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

| | 30 June 2022 | 31 December 2021 |
|-------------------------------------|-------------------------|-----------------------------|
| Quota | 656,309 | 641,864 |
| Special Drawing Rights with the IMF | 1,579 | 1,881 |
| TOTAL ASSETS | 657,888 | 643,745 |
| IMF account No.1 | 1,641 | 1,605 |
| IMF account No.2 | 652 | 637 |
| Securities | 1,584,706 | 1,562,617 |
| SDR allocation | 1,027,199 | 1,004,591 |
| Accrued interest on SDR allocation | 1,132 | 92 |
| Accounts of payable charges | 2,583 | 1,627 |
| TOTAL LIABILITIES | 2,617,913 | 2,571,169 |
| BH NET POSITION WITH THE IMF | 1,960,025 | 1,927,424 |

Securities 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 holdings are revalued based on the prevailing SDR exchange rate. These valuation adjustments are included in account balances stated.

31. EVENTS AFTER THE REPORTING PERIOD

The Governing Board of the ECB, at its meeting held on 21 July 2022, made a decision to increase three key ECB interest rates by 50 basis points starting from 27 July 2022. In accordance with the above mentioned decision, ECB deposit facility interest rate amounts to 0.00% from the 27 July 2022.

With the exception of the above, there were no events in the period between 30 June 2022 and the date of approval of these condensed interim financial statements that would require adjustment or are material but do not require adjustment.