



Centralna banka
BOSNE I HERCEGOVINE
Централна банка
БОСНЕ И ХЕРЦЕГОВИНЕ



CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2023

(unaudited)

in accordance with the requirements of International Accounting Standard 34

Sarajevo, 25 April 2023

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

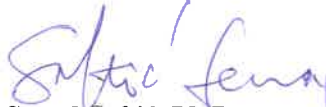
The Management of the Central Bank of Bosnia and Herzegovina is responsible for these condensed interim financial statements, which are prepared in accordance with the Law on the Central Bank of Bosnia and Herzegovina and International Accounting Standard 34: “Interim Financial Reporting”.


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 considers the financial statements and oversees the Central Bank of Bosnia and Herzegovina financial reporting process. In overseeing the financial reporting process, the Governing Board is assisted by the Audit Committee, which is consisted of three independent members. The Audit Committee reviews the condensed interim financial statements, which are then considered and 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 44 are approved by the Governing Board on 25 April 2023.


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 31 March 2023

STATEMENT OF FINANCIAL POSITION (UNAUDITED)

In thousands of KM	Note	31 March 2023	As at 31 December 2022
ASSETS			
Cash in foreign currencies	6	530,090	572,020
Deposits with foreign banks	7	7,936,111	8,273,200
Special Drawing Rights with the IMF	8, 30	1,455	149
Debt instruments at fair value through other comprehensive income	9	5,395,564	5,887,589
Monetary gold	10	170,445	160,040
Debt instruments at amortised cost	11	1,173,579	1,172,862
Other assets	12	19,949	19,280
Property and equipment		48,235	48,535
Intangible assets		745	844
Other investments		27,813	27,813
TOTAL ASSETS		15,303,986	16,162,332
LIABILITIES AND EQUITY			
LIABILITIES			
Banknotes and coins in circulation	13	7,397,890	7,436,097
Deposits from banks	14	6,454,299	7,217,387
Deposits from the Government and other public institutions	15	819,555	958,245
Provisions		883	897
Other liabilities	16	3,338	4,301
Total liabilities		14,675,965	15,616,927
EQUITY			
Initial capital		25,000	25,000
Reserves		559,924	520,405
Net profit for the period		43,097	-
Total equity	26	628,021	545,405
TOTAL LIABILITIES AND EQUITY		15,303,986	16,162,332

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Condensed Interim Financial Statements for the period ended 31 March 2023

STATEMENT OF PROFIT OR LOSS (UNAUDITED)

In thousands of KM	Note	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Interest income		49,259	16,454
Interest expense		(3,427)	(14,531)
NET INTEREST INCOME	17	45,832	1,923
Fee and commission income		5,205	5,990
Fee and commission expense		(132)	(221)
NET FEE AND COMMISSION INCOME	18	5,073	5,769
Net realised gains from sale of debt instruments at fair value through other comprehensive income	19	-	2,019
Net realised gains from sale of monetary gold	20	-	11,489
Net foreign exchange (losses) / gains	21	(464)	144
Net increase / decrease of impairment on financial assets	22	347	(353)
Other income		34	96
OPERATING INCOME		50,822	21,087
Personnel expenses	23	(4,487)	(4,213)
Administrative and other operating expenses	24	(1,471)	(1,592)
Costs of production of banknotes and coins	25	(1,059)	(1,088)
Depreciation and amortisation charge		(708)	(726)
OPERATING EXPENSES		(7,725)	(7,619)
NET PROFIT FOR THE PERIOD		43,097	13,468

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Condensed Interim Financial Statements for the period ended 31 March 2023

STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

In thousands of KM	Note	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
NET PROFIT FOR THE PERIOD		43,097	13,468
Other comprehensive income / (loss)			
<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	9	29,225	(150,302)
Net change in provisions for expected credit losses recognised in profit or loss during the period	5.1.1.	(111)	(12)
Reclassification to profit or loss from sale of debt instruments	19	-	(2,019)
		29,114	(152,333)
Monetary gold			
Net change in fair value during the period	10	10,405	27,820
Reclassification to profit or loss from sale of monetary gold	20	-	(11,489)
		10,405	16,331
Total other comprehensive income / (loss)		39,519	(136,002)
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE PERIOD		82,616	(122,534)

The selected notes on pages 9 to 44 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 2023	25,000	(143,005)	58,111	31,300	573,999	520,405	-	545,405
Total comprehensive income for the period	-	29,114	10,405	-	-	39,519	43,097	82,616
Net profit for the period	-	-	-	-	-	-	43,097	43,097
Other comprehensive income	-	29,114	10,405	-	-	39,519	-	39,519
<i>Net unrealised positive changes in fair value for debt instruments</i>	-	29,225	-	-	-	29,225	-	29,225
<i>Net release in provisions for expected credit losses for debt instruments recognised in profit or loss</i>	-	(111)	-	-	-	(111)	-	(111)
<i>Net unrealised positive changes in fair value for monetary gold</i>	-	-	10,405	-	-	10,405	-	10,405
Balance at 31 March 2023	25,000	(113,891)	68,516	31,300	573,999	559,924	43,097	628,021

The selected notes on pages 9 to 44 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 2022	25,000	158,914	98,129	31,300	548,100	836,443	-	861,443
Total comprehensive (loss) / income for the period	-	(152,333)	16,331	-	-	(136,002)	13,468	(122,534)
Net profit for the period	-	-	-	-	-	-	13,468	13,468
Other comprehensive (loss) / income	-	(152,333)	16,331	-	-	(136,002)	-	(136,002)
<i>Net unrealised negative changes in fair value for debt instruments</i>	-	(150,302)	-	-	-	(150,302)	-	(150,302)
<i>Net release in provisions for expected credit losses for debt instruments recognised in profit or loss</i>	-	(12)	-	-	-	(12)	-	(12)
<i>Net realised positive changes in fair value for debt instruments sold transferred to profit or loss</i>	-	(2,019)	-	-	-	(2,019)	-	(2,019)
<i>Net unrealised positive changes in fair value for monetary gold</i>	-	-	27,820	-	-	27,820	-	27,820
<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 31 March 2022	25,000	6,581	114,460	31,300	548,100	700,441	13,468	738,909

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Condensed Interim Financial Statements for the period ended 31 March 2023

STATEMENT OF CASH FLOWS (UNAUDITED)

	Note	For the period	
		01/01 - 31/03 2023	01/01 - 31/03 2022
In thousands of KM			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the period		43,097	13,468
Adjusted for:			
Interest income	17	(49,259)	(16,454)
Interest expense	17	3,427	14,531
Net (increase) / decrease in impairment on financial assets	22	(347)	353
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	19	-	(2,019)
Net realised (gains) from sale of monetary gold	20	-	(11,489)
Net foreign exchange (gains) / losses	21	464	(144)
Income from grants		(1)	(1)
Provisions, net increase		24	14
Depreciation and amortisation charge		708	726
Net cash flows from operating activities before changes in operating assets and liabilities		(1,887)	(1,015)
Changes in operating assets and liabilities			
(Increase) / decrease in term deposits with foreign banks		(37,169)	48,528
Decrease in debt instruments at fair value through other comprehensive income		521,250	928,026
(Increase) in debt instruments at amortised cost		(717)	(717,641)
Decrease in monetary gold		-	28,477
(Increase) / decrease in other assets		(1,541)	577
(Decrease) / increase in banknotes and coins in circulation	13	(38,207)	409,895
(Decrease) in deposits from banks		(763,587)	(720,588)
(Decrease) / increase in deposits from the Government and other public institutions		(138,690)	46,716
(Decrease) in other liabilities		(942)	(4,526)
Payments from provisions		(38)	(60)
Interest received		44,504	13,569
Interest paid		(2,928)	(13,676)
Net cash from operating activities		(419,952)	18,282
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(308)	(67)
Net cash used in investing activities		(308)	(67)

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA
Condensed Interim Financial Statements for the period ended 31 March 2023

STATEMENT OF CASH FLOWS (UNAUDITED) (CONTINUED)

In thousands of KM	Note	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Net effects from impairment for expected credit losses on cash and cash equivalents		232	(204)
Net effects of exchange rates on cash and cash equivalents held		(486)	154
Net (decrease) / increase in cash and cash equivalents		(420,514)	18,165
Cash and cash equivalents at the beginning of the period		7,846,633	3,986,726
Cash and cash equivalents at the end of the period	27	7,426,119	4,004,891

The selected notes on pages 9 to 44 are an integral part of these condensed interim financial statements.

**SELECTED NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2023 (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, organisation and operations have been defined by the Law on the Central Bank of Bosnia and Herzegovina, Official Gazette BH no: 1/97, 29/02, 08/03, 13/03, 14/03, 09/05, 76/06 and 32/07 (the “Law on the Central Bank”), adopted by the Parliamentary Assembly of Bosnia and Herzegovina, according to the General Framework Peace Agreement in Bosnia and Herzegovina (the “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.

The guaranteed convertibility of domestic currency and full coverage of monetary liabilities with convertible foreign currency reserves according to the currency board rule are the primary objectives of the Central Bank. All activities and operations of the Central Bank are undertaken in order to achieve the legally set goals and objectives with reference to preserve the monetary stability 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.

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

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

The 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)**The Management**

Senad Softić Ph.D.	Governor
Ernadina Bajrović M.Sc.	Vice Governor
Željko Marić Ph.D.	Vice Governor
Marko Vidaković M.Sc.	Vice Governor

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

The Audit Committee

Elvir Čizmić Ph.D.	Chairman
Dijana Čavar Ph.D.	Member
Vasilj Žarković Ph.D.	Member

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

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 (“IAS 34”): “Interim Financial Reporting” as issued by the International Accounting Standards Board (“IASB”). The condensed interim financial statements do not include all the information required for the complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) and should be read in conjunction with the latest audited financial statements of the Central Bank for the year ended 31 December 2022 (“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 going concern assumption. More information on the significant changes and conditions in the environment under which the Central Bank’s operations have been 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 2023.

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
Debt 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 2023. 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 31 March 2023. Future conditions may differ from those that resulted in the financial information disclosed in these condensed interim financial statements.

2.7. Significant changes and conditions in the environment for the period 01/01 - 31/03/2023

The circumstances, conditions and performed transactions in the international and domestic environment directly affected significant changes in the financial performance in the current reporting period i.e., the financial position of the Central Bank as at the reporting date. As disclosed in the latest annual financial statements, the presence of significantly different circumstances for performing the operations in the comparative reporting period has been resulted in the presentation of differently comparative amounts in these condensed interim financial statements.

The presence of increased uncertainty due to global events, more pronounced financial markets turbulences caused by the collapse of one bank in the USA, as well as the problems faced by other banks, have been defined the conditions in the international environment in the current reporting period. Considering the legal framework for investing the Central Bank's foreign currency reserves, the circumstances and conditions for investing the Central Bank's foreign currency reserves have been determined by increased financial risks, especially market risks on the euro area financial markets.

2. BASIS OF PREPARATION (CONTINUED)**2.7. Significant changes and conditions in the environment for the period 01/01 - 31/03/2023 (continued)**

In the current reporting period, as a response to high euro area inflation, the European Central Bank (“ECB”) has increased key interest rates twice by a total of 100 basis points. However, euro area bond yields did not follow the mentioned movements of the ECB key interest rates due to the transfer of bank crisis in the USA to the global level. As a result of the mentioned market circumstances, the growth of interest rates on deposited funds with foreign banks in the euro area financial markets continued, but with the simultaneous presence of volatile movements of debt instruments market yields.

The Central Bank has continued with the reinvestment of matured foreign currency reserves funds to deposits with foreign banks, while the volume of the portfolio of debt instruments at fair value through other comprehensive income has been decreased solely by their maturities. In the current reporting period, the short-term investment and reinvestment of foreign currency reserves has continued. The Central Bank’s net purchases of KM with domestic banks and depositors reduced the position of deposits with foreign banks as at reporting date.

The interest rates growth on deposited and reinvested Central Bank’s funds with foreign banks in the euro area has had a positive effect on foreign currency interest income, i.e., the total financial result of the period. In addition, in the current reporting period, the net positive effects of changes in the fair value of the Central Bank financial assets that are subsequently measured at fair value, have been recorded. The total comprehensive income for the period has been generated by realised foreign currency interest income and net positive financial effects of fair value changes. For more information see Notes:

Note	Title
5	Financial risk management
7	Deposits with foreign banks
9	Debt instruments at fair value through other comprehensive income
10	Monetary gold
17	Net interest income

Conditions in the domestic environment, predominantly determined by the transactions between domestic banks and depositors with the Central Bank, significantly reduced its monetary liabilities in the current reporting period. The current reporting period has been continuously determined by significant net purchases of KM by the Central Bank, both with domestic banks and with depositors.

In the current reporting period, domestic banks have made a net return of KM cash to the Central Bank’s vaults that was realised through their reserve accounts, with simultaneous significant transactions of the Central Bank’s net purchases of KM. Transactions of net purchases of KM with depositors have been primarily executed for the purpose of servicing external debt and transferring funds to depositors' off-balance sheet current accounts.

The net decrease of monetary liabilities from performed transactions of net purchases of KM also reduced the Central Bank foreign currency reserves as at reporting date.

As at 1 January 2023, the Central Bank has started with the application of new determined remuneration rates regarding the reserve requirement instrument, introducing positive remuneration rates for domestic banks on their deposited funds. For more information see Notes:

Note	Title
13	Banknotes and coins in circulation
14	Deposits from banks
15	Deposits from the Government and other public institutions
17	Net interest income

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

2. BASIS OF PREPARATION (CONTINUED)**2.7. Significant changes and conditions in the environment for the period 01/01 - 31/03/2023 (continued)**

The significant decrease of monetary liabilities, both with the positive financial effects of the subsequent measurements of foreign currency reserves components, has had a positive effect on net foreign assets, i.e., the equity of the Central Bank as at reporting date. For more information see Notes:

Note	Title
3	Currency board arrangement
26	Equity

3. CURRENCY BOARD ARRANGEMENT

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 are as follows:

In thousands of KM	31 March 2023	31 December 2022
Official foreign currency reserves		
Cash in foreign currencies	530,090	572,020
Deposits with foreign banks	7,936,111	8,273,200
Special Drawing Rights with the IMF	1,455	149
Debt instruments	6,569,143	7,060,451
Monetary gold	170,445	160,040
TOTAL	15,207,244	16,065,860
Liabilities to non-residents	2,546	2,583
Net foreign currency reserves (Official foreign currency reserves less liabilities to non-residents)	15,204,698	16,063,277
Monetary liabilities		
Banknotes and coins in circulation	7,397,890	7,436,097
Deposits from banks	6,454,299	7,217,387
Deposits from the Government and other public institutions	819,555	958,245
TOTAL	14,671,744	15,611,729
NET FOREIGN ASSETS (Net foreign currency reserves less monetary liabilities)	532,954	451,548

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

Net foreign assets are the Central Bank’s main financial indicator of achieving and maintaining the stability of domestic currency in BH and its main financial performance measure. It represents the part of official foreign currency reserves, which can be used only for purposes and needs determined by the Law on the Central Bank.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

3. CURRENCY BOARD ARRANGEMENT (CONTINUED)

Net foreign assets are the amounts that guarantee the domestic currency stability, respectively monetary stability and absorb potential financial risks arising from official currency reserves management. As at 31 March 2023, the financial balance of net foreign assets amounts to KM 532,954 thousand ensuring the full stability of domestic currency (31 December 2022: KM 451,548 thousand).

Significant decrease of monetary liabilities in the current reporting period, significant interest income from invested foreign currency reserves funds in deposits with foreign banks, as well as positive other comprehensive income for the period have positively reflected the amount of net foreign assets as at reporting date.

More information on financial risks to which the Central Bank has been exposed in foreign currency reserves management is disclosed in Note 5.

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

	31 March 2023	31 December 2022
Financial assets		
<i>Financial assets measured at fair value through other comprehensive income</i>		
Debt instruments	5,395,564	5,887,589
Monetary gold	170,445	160,040
TOTAL	5,566,009	6,047,629

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

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

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

	Carrying amount	31 March 2023 Fair value
Financial assets		
<i>Financial assets measured at amortised cost:</i>		
Cash in foreign currencies	530,090	530,090
Deposits with foreign banks	7,936,111	7,936,111
Special Drawing Rights with the IMF	1,455	1,455
Debt instruments at amortised cost	1,173,579	1,041,884
Other financial assets	3,000	3,000
	9,644,235	9,512,540
<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	9,672,048	9,540,353
Financial liabilities		
<i>Financial liabilities measured at amortised cost:</i>		
Banknotes and coins in circulation	7,397,890	7,397,890
Deposits from banks	6,454,299	6,454,299
Deposits from the Government and other public institutions	819,555	819,555
Other financial liabilities	3,066	3,066
Total	14,674,810	14,674,810

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

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

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

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

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.

Credit risk management is performed 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 during the reporting periods:

In thousands of KM

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
1. Deposits with foreign banks								
As at 1 January	1,850	-	-	1,850	913	-	-	913
Increases in expected credit losses	3,575	-	-	3,575	1,927	-	-	1,927
Releases of expected credit losses	(64)	-	-	(64)	(59)	-	-	(59)
Releases due to derecognition of term deposits	(3,747)	-	-	(3,747)	(1,667)	-	-	(1,667)
As at 31 March	1,614	-	-	1,614	1,114	-	-	1,114
2. Special Drawing Rights with the IMF								
As at 1 January	-	-	-	-	-	-	-	-
Increases in expected credit losses	-	-	-	-	-	-	-	-
Releases of expected credit losses	-	-	-	-	-	-	-	-
As at 31 March	-	-	-	-	-	-	-	-
3. Debt instruments at fair value through other comprehensive income								
As at 1 January	910	-	-	910	1,786	-	-	1,786
Increases in expected credit losses	10	-	-	10	231	-	-	231
Releases of expected credit losses	(3)	-	-	(3)	(40)	-	-	(40)
Releases due to debt instruments matured	(118)	-	-	(118)	(203)	-	-	(203)
<i>Net release during the period</i>	<i>(111)</i>	-	-	<i>(111)</i>	<i>(12)</i>	-	-	<i>(12)</i>
Releases due to debt instruments sold	-	-	-	-	(247)	-	-	(247)
As at 31 March	799	-	-	799	1,527	-	-	1,527

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.1. Credit risk exposure (continued)

In thousands of KM

	2023				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
4. Debt instruments at amortised cost								
As at 1 January	225	-	-	225	-	-	-	-
Increases in expected credit losses	1	-	-	1	164	-	-	164
Releases of expected credit losses	-	-	-	-	(1)	-	-	(1)
As at 31 March	226	-	-	226	163	-	-	163
5. Other financial assets								
As at 1 January	6	-	601	607	6	-	602	608
Increases in expected credit losses	2	-	-	2	4	-	-	4
Releases of expected credit losses	(2)	-	(1)	(3)	(3)	-	-	(3)
As at 31 March	6	-	600	606	7	-	602	609
Total opening balance at 1 January	2,991	-	601	3,592	2,705	-	602	3,307
Net (release) / increase in expected credit losses	(346)	-	(1)	(347)	106	-	-	106
Total closing balance at 31 March	2,645	-	600	3,245	2,811	-	602	3,413

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 reporting dates, analysed by the classes of financial instruments for which the expected credit losses are calculated and recognised:

In thousands of KM Classes of financial instruments	31 March 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Cash in foreign currencies								
Gross carrying amount	530,090	-	-	530,090	572,020	-	-	572,020
Impairment	-	-	-	-	-	-	-	-
Carrying amount	530,090	-	-	530,090	572,020	-	-	572,020
Deposits with foreign banks								
Gross carrying amount	7,937,725	-	-	7,937,725	8,275,050	-	-	8,275,050
Impairment	(1,614)	-	-	(1,614)	(1,850)	-	-	(1,850)
Carrying amount	7,936,111	-	-	7,936,111	8,273,200	-	-	8,273,200
Special Drawing Rights with the IMF								
Gross carrying amount	1,455	-	-	1,455	149	-	-	149
Impairment	-	-	-	-	-	-	-	-
Carrying amount	1,455	-	-	1,455	149	-	-	149
Debt instruments at fair value through other comprehensive income								
Gross carrying amount	5,395,564	-	-	5,395,564	5,887,589	-	-	5,887,589
Provisions for expected credit losses (recognised in other comprehensive income)	799	-	-	799	910	-	-	910
Gross carrying amount	5,395,564	-	-	5,395,564	5,887,589	-	-	5,887,589

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.2. Credit risk concentration (continued)

In thousands of KM	31 March 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Classes of financial instruments								
Debt instruments at amortised cost								
Gross carrying amount	1,173,805	-	-	1,173,805	1,173,087	-	-	1,173,087
Impairment	(226)	-	-	(226)	(225)	-	-	(225)
Carrying amount	1,173,579	-	-	1,173,579	1,172,862	-	-	1,172,862
Other financial assets								
Gross carrying amount	3,006	-	600	3,606	4,288	-	601	4,889
Impairment	(6)	-	(600)	(606)	(6)	-	(601)	(607)
Carrying amount	3,000	-	-	3,000	4,282	-	-	4,282

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.1. Credit risk (continued)

5.1.2. Credit risk concentration (continued)

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

In thousands of KM	31 March 2023	31 December 2022
Carrying amount		
Monetary gold	170,445	160,040
Other investments	27,813	27,813
TOTAL	198,258	187,853

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 per composite credit rating to the counterparty as at reporting dates:

Deposits with foreign banks

In thousands of KM	31 March 2023	31 December 2022
Credit rating		
AAA	3,965,185	3,562,708
AA+	-	-
AA	294,451	450,701
AA-	-	-
A+	1,909,853	1,678,882
A	1,749,272	2,575,495
A-	3,234	3,481
II ¹	15,730	3,783
BBB+	-	-
BBB	-	-
BBB-	-	-
Total	7,937,725	8,275,050
Impairment	(1,614)	(1,850)
TOTAL	7,936,111	8,273,200

¹ International institutions

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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	31 March 2023	31 December 2022
AAA	2,071,604	2,142,560
AA+	647,988	693,016
AA	1,094,919	1,244,391
AA-	525,608	524,373
A+	-	-
A	-	-
A-	662,833	795,710
BBB+	-	-
BBB	392,612	487,539
BBB-	-	-
TOTAL	5,395,564²	5,887,589

Debt instruments at amortised cost

In thousands of KM

Credit rating	31 March 2023	31 December 2022
AAA	141,376	141,023
AA+	281,388	282,171
AA	220,319	219,864
AA-	145,836	145,540
A+	-	-
A	41,235	41,776
A-	190,764	190,370
BBB+	-	-
BBB	152,887	152,343
BBB-	-	-
Total	1,173,805	1,173,087
Impairment	(226)	(225)
TOTAL	1,173,579	1,172,862

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

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 risk 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% for a 10-day horizon.

As at 31 March 2023, the exposure of the Central Bank's foreign currency reserves, including fluctuations of the prices of financial instruments and changes of foreign exchange rates against the KM, equals to KM 53,418 thousand (31 December 2022: KM 44,976 thousand), which represents 0.35% of the total financial assets (31 December 2022: 0.28% 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.

As at reporting dates, VaR values are provided in the following table:

In thousands of KM	31 March 2023	31 December 2022
Interest rate risk	39,647	37,044
Risk of change in EUR price of monetary gold	13,496	7,873
Foreign exchange risk	275	59
Total VaR	53,418	44,976

5.2.1. 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. The modified duration is a measure of the price sensitivity of a financial instrument to changes in interest rates, i.e., the market yield of a debt instrument. Modified duration is expressed as the number of years and the longer the duration, the higher the interest rate risk. The modified duration of the portfolio is calculated as a weighted average of the cash flows' maturities of individual financial instruments in the portfolio, where the weight is the present value of the cash flow. The modified duration of the portfolio of debt instruments at fair value through other comprehensive income amounts to 0.76 as at 31 March 2023 (31 December 2022: 0.92).

In the current reporting period, the movements of interest rates and euro area government bonds market yields are characterized by pronounced volatility caused primarily by the ECB's activities on further raise of key interest rates in the euro area and announcements with difficulties facing by certain banks in the USA and in the euro area. By the end of the reporting period, the ECB's key interest rates have been increased twice, by 50 basis points at the beginning of February and by 50 basis points at the end of March. The above mentioned increases affected the growth of interest rates and market yields of euro area bonds, and on the other hand, the above mentioned events in the banking sector consequently led to sharp corrections of bonds market yields.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.1. Interest rate risk (continued)

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

31 March 2023		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	-	-	-	-	530,090	530,090
Deposits with foreign banks	7,313,473	607,105	-	-	15,533	7,936,111
Special Drawing Rights with the IMF	1,443	-	-	-	12	1,455
Debt instruments at fair value through other comprehensive income	1,526,559	3,845,670	-	-	23,335	5,395,564
Monetary gold	-	-	-	-	170,445	170,445
Debt instruments at amortised cost	-	-	116,610	1,055,666	1,303	1,173,579
Other financial assets	-	-	-	-	3,000	3,000
Other investments	-	-	-	-	27,813	27,813
Total financial assets	8,841,475	4,452,775	116,610	1,055,666	771,531	15,238,057
Banknotes and coins in circulation	-	-	-	-	7,397,890	7,397,890
Deposits from banks	6,453,704	-	-	-	595	6,454,299
Deposits from the Government and other public institutions	-	-	-	-	819,555	819,555
Other financial liabilities	-	-	-	-	3,066	3,066
Total financial liabilities	6,453,704	-	-	-	8,221,106	14,674,810
INTEREST RATE GAP	2,387,771	4,452,775	116,610	1,055,666	(7,449,575)	563,247

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2. Market risk (continued)

5.2.1. Interest rate risk (continued)

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

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

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

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5. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 unfavourable and also when there is an unfavourable price movement.

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.

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

31 March 2023						
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	7,397,890	-	-	-	-	7,397,890
Deposits from banks	6,454,299	-	-	-	-	6,454,299
Deposits from the Government and other public institutions	819,555	-	-	-	-	819,555
Other financial liabilities	3,066	-	-	-	-	3,066
TOTAL FINANCIAL LIABILITIES	14,674,810	-	-	-	-	14,674,810

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

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6. CASH IN FOREIGN CURRENCIES

The following table presents balances of cash in foreign currencies, with an analytical presentation by the type of currency:

In thousands of KM	31 March 2023	31 December 2022
Cash in foreign currencies:		
EUR	530,052	571,982
USD	21	21
GBP	17	17
TOTAL	530,090	572,020

During the current reporting period, the Central Bank sold EUR banknotes to the foreign bank in the amount of KM 78,233 thousand (01/01 - 31/03/2022: The Central Bank purchased EUR banknotes in the amount of KM 293,375 thousand).

7. DEPOSITS WITH FOREIGN BANKS

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

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

In thousands of KM	31 March 2023	31 December 2022
Term deposits:		
EUR	6,569,264	6,646,490
Impairment	(1,517)	(1,734)
Total	6,567,747	6,644,756
Demand deposits:		
EUR	1,350,126	1,621,860
USD	14,168	2,351
CHF	2,144	2,306
GBP	2,023	2,043
	1,368,461	1,628,560
Impairment	(97)	(116)
Total	1,368,364	1,628,444
TOTAL	7,936,111	8,273,200

Deposits with foreign banks include accrued interest in the amount of KM 15,533 thousand as at 31 March 2023 (31 December 2022: Included accrued interest in the amount of KM 8,503 thousand).

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Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

7. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

Term deposits with foreign banks, analysed by the remaining contractual maturity, are presented in the following table:

In thousands of KM	31 March 2023	31 December 2022
Up to one month	5,253,961	3,980,765
From one to two months	490,963	1,469,432
From two to three months	215,858	764,312
From three to four months	98,083	431,981
From four to twelve months	510,399	-
Total	6,569,264	6,646,490
Impairment	(1,517)	(1,734)
TOTAL	6,567,747	6,644,756

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

In thousands of KM	31 March 2023	31 December 2022
Foreign central banks	4,634,017	4,619,177
Foreign commercial banks	3,287,978	3,652,090
International financial institutions	15,730	3,783
Total	7,937,725	8,275,050
Impairment (Note 5.1.1)	(1,614)	(1,850)
TOTAL	7,936,111	8,273,200

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

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

In thousands of KM	31 March 2023	31 December 2022
Luxembourg	2,007,270	1,627,805
Switzerland	1,546,469	1,578,436
France	1,461,038	1,339,340
Slovakia	1,161,856	1,390,179
Germany	1,075,084	1,055,215
Great Britain	586,815	1,185,316
Netherlands	98,687	98,100
USA	506	659
Total	7,937,725	8,275,050
Impairment	(1,614)	(1,850)
TOTAL	7,936,111	8,273,200

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8. SPECIAL DRAWING RIGHTS WITH THE IMF

In thousands of KM	31 March 2023	31 December 2022
Account of Special Drawing Rights with the IMF	1,443	147
Accrued interest	12	2
Total	1,455	149
Impairment	-	-
TOTAL	1,455	149

9. 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 the euro area countries. The portfolio of these debt instruments includes short-term and long-term government bonds with a fixed interest rate. Debt instruments at fair value through other comprehensive income are denominated in EUR currency.

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

In thousands of KM	31 March 2023	31 December 2022
Coupon debt instruments	4,208,510	4,656,303
Accrued interest on coupon debt instruments	31,194	31,978
Total	4,239,704	4,688,281
Discount debt instruments	1,163,719	1,212,615
Accrued (discount) on discount debt instruments	(7,859)	(13,307)
Total	1,155,860	1,199,308
TOTAL	5,395,564	5,887,589

As at 31 March 2023, provisions for expected credit losses for debt instruments, recognized in other comprehensive income, amount to KM 799 thousand (31 December 2022: KM 910 thousand). During the reporting period, net release of provisions for expected credit losses recognised in profit or loss for the period, amounts to KM 111 thousand (01/01 - 31/03/2022: Net release amounted to KM 12 thousand). More information about these changes in the reporting periods is disclosed in Notes 5.1.1. and 22.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

9. 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, are presented in the following table:

	31 March 2023		31 December 2022	
	In thousands of KM	%	In thousands of KM	%
Germany	1,644,651	30.48	1,698,303	28.84
France	1,094,919	20.29	1,244,391	21.13
Spain	662,833	12.28	795,710	13.52
Belgium	486,306	9.01	483,940	8.22
Netherlands	426,953	7.91	444,257	7.55
Austria	414,763	7.69	461,229	7.83
Italy	392,612	7.28	487,539	8.28
Finland	233,225	4.32	231,787	3.94
Ireland	39,302	0.74	40,433	0.69
TOTAL	5,395,564	100.00	5,887,589	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	
	01/01 - 31/03 2023	01/01 - 31/03 2022
As at	5,887,589	11,629,592
Purchases during the period	-	1,510,536
Sales during the period	-	(1,148,658)
Interest income recognised during the period (Note 17)	4,459	6,980
Effects of negative interest rates recognised during the period (Note 17)	(1,973)	(9,329)
Maturities of debt instruments	(516,579)	(1,269,823)
Maturities of coupons	(7,157)	(17,733)
Net unrealised change in fair value during the period	29,225	(150,302)
Transaction costs	-	2
As at	5,395,564	10,551,265

Significant declines of presented amounts in the comparative reporting period are the result of different market conditions for investing the foreign currency reserves, significantly larger portfolio volume and different investment operations undertaken in the comparative reporting period. More information about the Central Bank's composite credit rating range and credit risk concentration for debt instruments at fair value through other comprehensive income as at reporting dates is disclosed in Note 5.1.2.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

9. 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	31 March 2023	31 December 2022
Up to 3 months	775,794	514,934
From 3 to 12 months	3,318,803	3,120,538
From 1 to 3 years	1,227,339	2,180,052
Over 3 years	73,628	72,065
TOTAL	5,395,564	5,887,589

10. MONETARY GOLD

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

In thousands KM

As at	Quantity of ounces	Price per ounce in KM	Fair value of monetary gold as at
31 March 2023	48,000	3,551	170,445
31 December 2022	48,000	3,334	160,040
31 March 2022	88,000	3,424	301,330

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

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
As at	160,040	301,987
Sales during the period	-	(28,477)
Net unrealized change in fair value during the period	10,405	27,820
As at	170,445	301,330

11. DEBT INSTRUMENTS AT AMORTISED COST

Debt instruments at amortised cost represent Central Bank's foreign currency reserves funds invested in liquid sovereign government bonds of the euro area countries with the intention of holding them until maturity. As at 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.

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Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

11. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)

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

In thousands of KM	31 March 2023	31 December 2022
Coupon debt instruments	1,172,502	1,170,693
Accrued interest on coupon debt instruments	1,303	2,394
Total	1,173,805	1,173,087
Impairment	(226)	(225)
TOTAL	1,173,579	1,172,862

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

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

In thousands of KM	31 March 2023	31 December 2022
Up to 3 months	-	-
From 3 to 12 months	-	-
From 1 to 3 years	117,329	116,872
Over 3 years	1,056,476	1,056,215
Total	1,173,805	1,173,087
Impairment	(226)	(225)
TOTAL	1,173,579	1,172,862

12. OTHER ASSETS

In thousands of KM	31 March 2023	31 December 2022
Gross carrying amount of other financial assets	3,606	4,889
Impairment	(606)	(607)
Other financial assets	3,000	4,282
Other nonfinancial assets	16,949	14,998
TOTAL	19,949	19,280

As at reporting dates, other nonfinancial assets are mostly related to the prepaid expenses for banknotes and coins production.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

13. BANKNOTES AND COINS IN CIRCULATION

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

	31 March 2023		31 December 2022	
	Pieces	Amount in thousands of KM	Pieces	Amount in thousands of KM
Coins	482,929,462	246,434	477,546,750	243,749
Banknotes	103,205,794	7,151,456	103,802,202	7,192,348
UKUPNO		7,397,890		7,436,097

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

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Banknotes and coins in circulation as at	7,436,097	6,923,818
Net (decrease) / increase in value of banknotes and coins in circulation during the period	(38,207)	409,895
Banknotes and coins in circulation as at	7,397,890	7,333,713

14. DEPOSITS FROM BANKS

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

In thousands of KM	31 March 2023	31 December 2022
Deposits of domestic banks	6,453,704	7,215,919
Reserve accounts of the Central Bank organizational units	562	1,435
Special deposits of domestic banks - blocked funds	33	33
TOTAL	6,454,299	7,217,387

Deposits from domestic banks include accrued remuneration on the basis of required reserve policy in the amount of KM 499 thousand as at 31 March 2023 (31 December 2022: The amount of KM 894 thousand represented the negative accrued interest).

15. DEPOSITS FROM THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS

In thousands of KM	31 March 2023	31 December 2022
Budgetary deposits from BH institutions	567,525	560,390
Deposits from other public institutions	160,078	272,721
Deposits from other local governments and government institutions	91,933	125,108
Deposit account under the IMF transactions	19	26
TOTAL	819,555	958,245

During the current reporting period, the Deposit Insurance Agency of the BH transferred funds to the off-balance foreign account. As at reporting dates, the amounts of deposited funds of the Deposit Insurance Agency of the BH are presented in Note 28.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

16. OTHER LIABILITIES

In thousands of KM	31 March 2023	31 December 2022
Other financial liabilities	3,066	4,023
Other nonfinancial liabilities	272	278
TOTAL	3,338	4,301

17. NET INTEREST INCOME

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Interest income arising from:		
Deposits with foreign banks (Note 7)	41,840	-
Debt instruments at fair value through other comprehensive income (Note 9)	4,459	6,980
Debt instruments at amortised cost (Note 11)	2,930	357
Special Drawing Rights with the IMF	30	1
Effects of negative deposit interest rates on deposits from domestic banks	-	9,116
Total	49,259	16,454
Interest expense arising from:		
Effects of negative interest rates from debt instruments at fair value through other comprehensive income (Note 9)	(1,973)	(9,329)
Deposits from domestic banks	(1,454)	-
Effects of negative interest rates from deposits with foreign banks	-	(5,202)
Total	(3,427)	(14,531)
Net interest income	45,832	1,923

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

17. 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	
	01/01 - 31/03 2023	01/01 - 31/03 2022
1. Financial assets at amortised cost		
<i>Interest income arising from:</i>		
Deposits with foreign banks	41,840	-
Debt instruments at amortised cost	2,930	357
Special Drawing Rights with the IMF	30	1
	<u>44,800</u>	<u>358</u>
<i>Interest expense arising from:</i>		
Effects of negative interest rates from deposits with foreign banks	-	(5,202)
	-	<u>(5,202)</u>
Total	44,800	(4,844)
2. Debt instruments at fair value through other comprehensive income		
Interest income	4,459	6,980
Effects of negative interest rates	(1,973)	(9,329)
Total	2,486	(2,349)
3. Financial liabilities at amortised cost		
Effects of negative deposit interest rates on deposits from domestic banks	-	9,116
Interest expenses arising from deposits from domestic banks	(1,454)	-
Total	(1,454)	9,116
Net interest income	45,832	1,923

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

In thousands of KM	For the period	
	01/01 - 31/03 2023	01/01 - 31/03 2022
Interest income		
Term deposits	35,793	-
Demand deposits	6,047	-
Total	41,840	-
Effects of negative interest rates		
Term deposits	-	(4,367)
Demand deposits	-	(835)
Total	-	(5,202)

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Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

17. NET INTEREST INCOME (CONTINUED)

The average effective yield rate on deposits with foreign banks amounts to 2.16% in the period 01/01 - 31/03/2023 (01/01 - 31/03/2022: The average negative effective yield rate amounted to 0.53%).

The average effective yield rate on debt instruments at fair value through other comprehensive income amounts to 0.18% in the period 01/01 - 31/03/2023 (01/01 - 31/03/2022: The average negative effective yield rate amounted to 0.01%).

The average effective yield rate on debt instruments at amortised cost amounts to 1.01% in the period 01/01 - 31/03/2023 (01/01 - 31/03/2022: The average effective yield rate amounted to 0.92%).

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

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

In the period 01/01 - 31/03/2023, the Central Bank calculates and pays a remuneration to domestic banks on the required reserves amounts generated from domestic currency base and from the foreign currency base and the domestic currency with a currency clause base. The zero-remuneration rate is calculated on the amounts exceeding required reserves.

In the period 01/01 - 31/03/2022, the Central Bank did not calculate a remuneration on the required reserves amounts generated from domestic currency base, while it was calculated and charged on the required reserves amounts generated from the foreign currency base and the domestic currency with a currency clause base, also the remuneration was calculated on the amounts exceeding the required reserves. The remuneration rates applied by the Central Bank were linked to the ECB deposit facility rate, additionally reduced by 10 basis points for the required reserves amounts and by 25 basis points for the amounts exceeding the required reserves. The ECB negative deposit facility rate amounted to 0.50% in the comparative reporting period.

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

Base for calculation of remuneration	The Central Bank remuneration rate for the period	
	01/01 - 31/03 2023	01/01 - 31/03 2022
Required reserves amounts		
<i>Domestic currency base</i>	0.25%	0.00%
<i>Foreign currency base</i>	0.10%	(0.60%)
<i>Domestic currency with currency clause base</i>	0.10%	(0.60%)
Amounts exceeding the required reserves	0.00%	(0.75%)

Interest expenses arising from deposits from domestic banks include expenses arising from the required reserves in the amount of KM 1,454 thousand in the period 01/01 - 31/03/2023 (01/01 - 31/03/2022: The effects of negative deposit interest rates on deposits from domestic banks included income arising from the amounts exceeding the required reserves in the amount of KM 7,104 thousand and KM 2,012 thousand arising from the amounts of required reserves).

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Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

18. NET FEE AND COMMISSION INCOME

In thousands KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Fee and commission income arising from:		
Services for domestic banks	4,846	5,577
Services for the Government and other non-banking clients	359	413
Total	5,205	5,990
Fee and commission expenses arising from:		
Custodian and other expenses for debt instruments	(124)	(211)
Transactions with foreign banks	(7)	(8)
Other fee and commission expenses	(1)	(2)
Total	(132)	(221)
Net fee and commission income	5,073	5,769

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

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Realised gains	-	8,366
Realised losses	-	(6,347)
TOTAL	-	2,019

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

20. NET REALISED GAINS FROM SALE OF MONETARY GOLD

In the comparative reporting period, 8,000 ounces of monetary gold has been sold generating net realised gain in the amount of KM 11,489 thousand. Gains arising from fair value changes of monetary gold recognised in other comprehensive income, within fair value reserves for monetary gold, are recognised as realised gains in profit or loss account at the sale date.

21. NET FOREIGN EXCHANGE (LOSSES) / GAINS

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Net unrealised foreign exchange (losses) / gains	(502)	52
Net realised foreign exchange gains	38	92
TOTAL	(464)	144

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

22. NET INCREASE / DECREASE OF IMPAIRMENT ON FINANCIAL ASSETS

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Net (increase) in / release of impairment for deposits with foreign banks	236	(201)
Net (increase) in / release of impairment for Special Drawing Rights with the IMF	-	-
Net release of provisions for expected credit losses for debt instruments at fair value through other comprehensive income	111	12
Net (increase) in impairment for debt instruments at amortised cost	(1)	(163)
Net release of /(increase) in impairment for other financial assets	1	(1)
TOTAL	347	(353)

23. PERSONNEL EXPENSES

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Salaries	2,561	2,382
Contributions and other fees on salaries	1,424	1,333
Other employee benefits	396	391
Contributions and other fees on other employees' benefits	82	93
Total	4,463	4,199
Provisions for severance payments and jubilee awards, net increase	24	14
TOTAL	4,487	4,213

Personnel expenses include KM 852 thousand of defined pension contributions paid to the public pension funds in BH (01/01 - 31/03/2022: KM 810 thousand).

The average number of employees in the reporting period amounts to 347 (01/01 - 31/03/2022: 357 employees).

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

24. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Payment systems maintenance expenses	435	433
Overhead expenses	226	221
IT infrastructure expenses	205	193
Access to official services expenses	176	160
Fixed assets maintenance expenses	52	52
Other administrative and operating expenses	377	533
TOTAL	1,471	1,592

25. COSTS OF PRODUCTION OF BANKNOTES AND COINS

In thousands of KM	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Costs of production and design of banknotes	487	679
Costs of production and design of coins	572	409
TOTAL	1,059	1,088

26. EQUITY

The structure of equity is presented in the following table:

In thousands of KM	31 March 2023	31 December 2022
Initial capital	25,000	25,000
Fair value reserves for debt and equity instruments	(113,891)	(143,005)
Fair value reserves for monetary gold	68,516	58,111
Other reserves	31,300	31,300
General reserves (Retained earnings)	573,999	573,999
Net profit for the period	43,097	-
TOTAL	628,021	545,405

Information on significant changes in the current reporting period that increased the Central Bank's equity is disclosed in Notes 9, 10 and 17.

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

27. CASH AND CASH EQUIVALENTS

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

In thousands of KM	31 March 2023	31 March 2022
Foreign currency deposits with maturity up to three months or less from the date of acquisition	5,527,071	2,904,667
Foreign currency demand deposits	1,368,461	641,368
Cash in foreign currencies	530,090	457,018
Special Drawing Rights with the IMF	1,455	2,146
Giro accounts	562	754
Total	7,427,639	4,005,953
Impairment	(1,520)	(1,062)
TOTAL	7,426,119	4,004,891

28. RELATED PARTIES TRANSACTIONS

Transactions with the State and BH institutions are presented in the following tables:

In thousands of KM

As at 31 March 2023	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
ASSETS				
Other assets	5	1	2	8
TOTAL	5	1	2	8

LIABILITIES

Deposits from depositors	417,173	121,713	211,490	750,376
Other liabilities	-	-	1	1
TOTAL	417,173	121,713	211,491	750,377

In thousands of KM

As at 31 December 2022	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
ASSETS				
Other assets	30	3	11	44
TOTAL	30	3	11	44

LIABILITIES

Deposits from depositors	423,902	230,883	202,588	857,373
Other liabilities	-	-	1	1
TOTAL	423,902	230,883	202,589	857,374

CENTRAL BANK OF BOSNIA AND HERZEGOVINA

Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

28. RELATED PARTIES TRANSACTIONS (CONTINUED)

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

In thousands of KM

	01/01 - 31/03 2023	For the period 01/01 - 31/03 2022
Fee and commission income		
BH Ministry of Finance and Treasury	15	30
BH Deposit Insurance Agency	5	12
BH Indirect Taxation Authority	7	20
TOTAL	27	62

In executing its functions of the banker, the depository and the fiscal agent prescribed by the Law on the Central Bank, the Central Bank also maintains certain bookkeeping and executes transactions for the State and BH institutions that are recorded off-balance. More information about these off-balance records is disclosed in Notes 29 and 30.

Remuneration of key management members

The total remuneration of the key management members, in the period 01/01 - 31/03/2023, amounts to KM 245 thousand, out of which KM 154 thousand is related to salaries and other remuneration and KM 91 thousand is related to taxes and contributions (01/01 - 31/03/2022: Out of the total amount of KM 220 thousand, the amount of KM 138 thousand was related to salaries and other remunerations and KM 82 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 are not included in the Central Bank's statement of financial position.

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

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29. OFF-BALANCE SHEET DEPOSITS (CONTINUED)

Off-balance sheet deposits consist of:

In thousands of KM	31 March 2023	31 December 2022
Deposits of the Council of Ministers of BH for the Budget of BH institutions	199,012	197,946
Deposits of the Council of Ministers of BH for servicing of BH foreign debt	24,673	9,367
Other deposits of the Council of Ministers of BH	290	294
Deposits of the Council of Ministers of BH on the basis of succession	47	47
Total	224,022	207,654
Funds of the Deposit Insurance Agency of BH	19,275	20,985
Total	19,275	20,985
Deposit accounts of domestic banks	15,709	18,537
Deposits - Retirement allowance from Germany	200	348
Total	15,909	18,885
TOTAL	259,206	247,524

BH Ministry of Finance and Treasury is the institution that acts on behalf of the Council of Ministers of BH and state in deposit management and coordination. As at 31 March 2023 the total of these funds amount to KM 224,022 thousand (31 December 2022: KM 207,654 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.

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.

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Selected Notes to the Condensed Interim Financial Statements for the period ended 31 March 2023

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

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

In thousands of KM

	31 March 2023	31 December 2022
Quota	643,347	649,867
Special Drawing Rights with the IMF	1,455	149
TOTAL ASSETS	644,802	650,016
IMF account No.1	1,608	1,625
IMF account No.2	637	643
Securities	1,502,132	1,543,253
SDR allocation	1,006,912	1,017,117
Accrued interest on SDR allocation	5,554	4,669
Accounts of payable charges	6,215	5,610
TOTAL LIABILITIES	2,523,058	2,572,917
BH NET POSITION WITH THE IMF	1,878,256	1,922,901

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

With the exception of the above, there were no events in the period between 31 March 2023 and the date of approval of these condensed interim financial statements that would require adjustment or are material but do not require adjustment.