

# **CENTRAL BANK OF BOSNIA AND HERZEGOVINA**

**INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2020**

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## FINANCIAL REPORTING RESPONSIBILITY

The Management of the Central Bank of Bosnia and Herzegovina is responsible to prepare financial statements for each financial year which give a true and fair view of the financial position and of the results of its operations and cash flows, in accordance with the Law on the Central Bank of Bosnia and Herzegovina and International Financial Reporting Standards, as published by the International Accounting Standards Board.

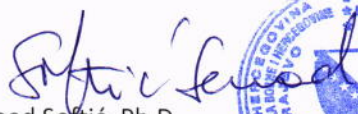
The Governing Board, as a highest body of the Central Bank of the Bosnia and Herzegovina, is responsible for the approval of policies and supervision of their application, administration and operations of the Central Bank of Bosnia and Herzegovina. The Governing Board is responsible for selecting suitable accounting policies to conform to applicable International Financial Reporting Standards and for overseeing the financial reporting process.

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 such financial statements at any time. The Management has a general responsibility for taking such steps as are reasonably available and for implementation of such internal controls to safeguard the assets of the Central Bank of Bosnia and Herzegovina and to prevent and detect fraud and other irregularities.

The Governing Board exercises its overseeing function for the financial reporting process also through the Audit Committee, formed as a body of the Governing Board. After reviewing the annual financial statements by the Audit Committee, the same are approved by the Governing Board and submitted to the Parliamentary Assembly of Bosnia and Herzegovina.

These 2020 financial statements have been audited by the independent auditors of the Central Bank of Bosnia and Herzegovina and their report is presented on pages 2 to 4. The independent auditors have been provided with full and unrestricted access to all information and communication needed to implement and discuss their audit procedures.

The accompanying financial statements set out on pages 5 to 77 are approved by the Governing Board on 29 March 2021 and are signed, on its behalf by:

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



  
Edis Kovačević, M.Sc.  
Head of Accounting and Finance Department

## Independent Auditor's Report

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

#### Opinion

We have audited the accompanying financial statements of the Central Bank of Bosnia and Herzegovina (hereinafter: the "Central Bank"), which comprise the Statement of financial position as at 31 December 2020 and the Statement of profit or loss, Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Central Bank of Bosnia and Herzegovina as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### Basis for Opinion

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

#### Responsibilities of the Management and the Governing Board of the Central Bank for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Central Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting.

The Governing Board of the Central Bank is responsible for overseeing the Central Bank's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from a fraud is higher, than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Central Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Central Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Central Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Governing Board of the Central Bank regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aleksandar Džombić, PhD

Director  
Grant Thornton d.o.o.

Banja Luka, 29 March 2021

Nevena Milinković

Certified Auditor  
Grant Thornton d.o.o.

Banja Luka, 29 March 2021

Suzana Stavrikj, Partner

Grant Thornton d.o.o.

Skopje, 29 March 2021

Kledian Kodra, Partner

Grant Thornton sh.p.k.

Tirana, 29 March 2021

## STATEMENT OF PROFIT OR LOSS

In thousands of KM	Note	For the year ended 31 December	
		2020	2019
Interest income		51,721	51,178
Interest expense		(32,197)	(26,358)
<b>NET INTEREST INCOME</b>	<b>7</b>	<b>19,524</b>	<b>24,820</b>
Fee and commission income		18,061	17,665
Fee and commission expenses		(689)	(646)
<b>NET FEE AND COMMISSION INCOME</b>	<b>8</b>	<b>17,372</b>	<b>17,019</b>
Net realised gains from sale of debt instruments at fair value through other comprehensive income	9	1,578	238
Net foreign exchange (losses) / gains	10	(184)	307
Other income	11	245	850
<b>OPERATING INCOME</b>		<b>38,535</b>	<b>43,234</b>
Personnel expenses	12	(18,578)	(19,670)
Administrative and other operating expenses	13	(9,107)	(7,952)
Depreciation and amortisation charge	20	(2,532)	(2,446)
<b>OPERATING EXPENSES</b>		<b>(30,217)</b>	<b>(30,068)</b>
<b>FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES</b>		<b>8,318</b>	<b>13,166</b>
Provisions for expected credit losses, net (increase) / release	14	(410)	9,409
<b>NET PROFIT FOR THE YEAR</b>	<b>28</b>	<b>7,908</b>	<b>22,575</b>

The accompanying notes on pages 12 to 77 are an integral part of these financial statements.

## STATEMENT OF COMPREHENSIVE INCOME

In thousands of KM	Note	For the year ended 31 December 2020	2019
<b>NET PROFIT FOR THE YEAR</b>		<b>7,908</b>	<b>22,575</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
<b>Debt instruments at fair value through other comprehensive income</b>			
Net change in fair value during the year	17	81,673	77,863
Net change in provisions for expected credit losses recognized in profit or loss during the year	6.1.1., 14	314	(7,598)
Reclassification to profit or loss from sale of debt instruments	9	(1,578)	(238)
		<b>80,409</b>	<b>70,027</b>
<b>Monetary gold</b>			
Net change in fair value during the year	18	37,473	44,092
		<b>37,473</b>	<b>44,092</b>
<b>Total other comprehensive income</b>		<b>117,882</b>	<b>114,119</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>125,790</b>	<b>136,694</b>

The accompanying notes on pages 12 to 77 are an integral part of these financial statements.



## STATEMENT OF FINANCIAL POSITION

In thousands of KM	Note	31 December 2020	As at 31 December 2019
<b>ASSETS</b>			
Cash in foreign currencies	15	142,202	322,599
Deposits with foreign banks	16	3,832,072	3,102,765
Debt instruments	17	9,601,315	8,917,413
Monetary gold	18	291,561	254,088
Special Drawing Rights with the IMF	30, 33	879	230
Other assets	19	12,671	11,457
Property and equipment	20	48,560	48,314
Intangible assets	20	1,234	1,563
Other investments	21	27,813	27,813
<b>TOTAL ASSETS</b>		<b>13,958,307</b>	<b>12,686,242</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES</b>			
Banknotes and coins in circulation	22	6,172,457	5,199,916
Deposits from banks	23	5,901,142	5,743,619
Deposits from the Government and other public institutions	24	897,044	880,675
Provisions	25	1,414	1,394
Other liabilities	27	3,919	4,097
<b>Total liabilities</b>		<b>12,975,976</b>	<b>11,829,701</b>
<b>EQUITY</b>			
Initial capital		25,000	25,000
Reserves		957,331	831,541
<b>Total equity</b>	29	<b>982,331</b>	<b>856,541</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>13,958,307</b>	<b>12,686,242</b>

The accompanying notes on pages 12 to 77 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

In thousands of KM	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves for debt and equity instruments at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves for monetary gold	Total reserves	Total equity
Balance at 1 January 2020	25,000	537,295	31,300	211,373	1,343	50,230	831,541	856,541
Total comprehensive income for the year	-	7,908	-	80,154	255	37,473	125,790	125,790
Net profit for the year	-	7,908	-	-	-	-	7,908	7,908
Other comprehensive income	-	-	-	80,154	255	37,473	117,882	117,882
Net unrealised positive changes in fair value for debt instruments	-	-	-	81,673	-	-	81,673	81,673
Net realised positive changes in fair value for debt instruments transferred to profit or loss	-	-	-	(1,519)	-	-	(1,519)	(1,519)
Net increase of provisions for expected credit losses for debt instruments recognised in profit or loss	-	-	-	-	314	-	314	314
Net release of provisions for expected credit losses transferred to profit or loss for debt instruments sold	-	-	-	-	(59)	-	(59)	(59)
Net unrealised positive changes in fair value for monetary gold	-	-	-	-	-	37,473	37,473	37,473
Balance at 31 December 2020	25,000	545,203	31,300	291,527	1,598	87,703	957,331	982,331

The accompanying notes on pages 12 to 77 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY (CONTINUED)

In thousands of KM	Initial capital	General reserves (Retained earnings)	Other reserves	Fair value reserves for debt and equity instruments at fair value through other comprehensive income	Provisions for expected credit losses	Fair value reserves for monetary gold	Total reserves	Total equity
Balance at 1 January 2019	25,000	514,720	31,300	133,696	8,993	6,138	694,847	719,847
Total comprehensive income for the year	-	22,575	-	77,677	(7,650)	44,092	136,694	136,694
Net profit for the year	-	22,575	-	-	-	-	22,575	22,575
Other comprehensive income	-	-	-	77,677	(7,650)	44,092	114,119	114,119
Net unrealised positive changes in fair value for debt instruments	-	-	-	77,863	-	-	77,863	77,863
Net realised positive changes in fair value for debt instruments transferred to profit or loss	-	-	-	(186)	-	-	(186)	(186)
Net release of provisions for expected credit losses for debt instruments recognised in profit or loss	-	-	-	-	(7,598)	-	(7,598)	(7,598)
Net release of provisions for expected credit losses transferred to profit or loss for debt instruments sold	-	-	-	-	(52)	-	(52)	(52)
Net unrealised positive changes in fair value for monetary gold	-	-	-	-	-	44,092	44,092	44,092
Balance at 31 December 2019	25,000	537,295	31,300	211,373	1,343	50,230	831,541	856,541

The accompanying notes on pages 12 to 77 are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

		For the year ended 31 December	
	Note	2020	2019
In thousands of KM			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		7,908	22,575
Adjusted for:			
Interest income	7	(51,721)	(51,178)
Interest expense	7	32,197	26,358
Provisions for expected credit losses, net increase / (release)	14	410	(9,409)
Net realised (gains) from sale of debt instruments at fair value through other comprehensive income	9	(1,578)	(238)
Net foreign exchange losses / (gains)	10	184	(307)
Income from grants	11	(50)	(98)
Provisions, net increase	12, 25	151	277
Net loss on disposal of property, equipment and intangible assets		2	8
Dividend income recognized in profit or loss	11	-	(623)
Depreciation and amortisation charge	20	2,532	2,446
Net cash flows used in operating activities before changes in operating assets and liabilities		(9,965)	(10,189)
Changes in operating assets and liabilities			
(Increase) / decrease in term deposits with foreign banks		(139,779)	584,828
(Increase) in debt instruments		(602,229)	(614,111)
(Increase) in other assets		(1,391)	(882)
Increase in banknotes and coins in circulation	22	972,541	449,302
Increase in deposits from banks		158,825	221,633
Increase in deposits from the Government and other public institutions		16,369	171,308
(Decrease) / increase in other liabilities		(197)	938
Payments from provisions	25	(131)	(142)
Interest received		50,419	49,875
Interest paid		(31,135)	(25,586)
Net cash from operating activities		413,327	826,974
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, equipment and intangible assets		(2,451)	(6,311)
Dividends received		-	623
Net cash used in investing activities		(2,451)	(5,688)

## STATEMENT OF CASH FLOWS (CONTINUED)

In thousands of KM	Note	For the year ended 31 December	
		2020	2019
Effects from changes in impairment for expected credit losses on cash and cash equivalents		(45)	990
Effects of exchange rate fluctuations on cash and cash equivalents held		(115)	336
<b>Net increase in cash and cash equivalents</b>		<b>410,716</b>	<b>822,612</b>
Cash and cash equivalents at the beginning of the year		<u>2,498,972</u>	<u>1,676,360</u>
Cash and cash equivalents at the end of the year	30	<u>2,909,688</u>	<u>2,498,972</u>

The accompanying notes on pages 12 to 77 are an integral part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

The Central Bank started its operations on 11 August 1997.

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

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

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

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

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

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

## 1. GENERAL INFORMATION (CONTINUED)

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

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

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

During the course of 2019 and 2020 and up to the date of this report, key management members of the Central Bank are:

### The Governing Board

Senad Softić Ph.D.	Chairman
Šerif Išović M.Sc.	Member
Radomir Božić Ph.D.	Member (from 30 April 2020)
Dragan Kulina Ph.D.	Member (from 30 April 2020)
Danijela Martinović Ph.D.	Member (from 30 April 2020)
Ankica Kolobarić M.Sc.	Member (until 30 April 2020)
Trivo Marinković M.Sc.	Member (until 19 June 2019 and from 19 July 2019 until 4 October 2019)
Ljubiša Vladušić Ph.D.	Member (until 19 June 2019 and from 19 July 2019 until 4 October 2019)

### The Management

Senad Softić Ph.D.	Governor
Ernadina Bajrović M.Sc.	Vice Governor
Milica Lakić Ph.D.	Vice Governor
Želimira Raspudić	Vice Governor

The Central Bank has formed the Audit Committee consisting of three independent members appointed by the Governing Board. The Audit Committee is in charge of overseeing financial reporting of the Central Bank, monitoring the external audit process of annual financial statements and overseeing the election process of the Central Bank's independent auditors. Due to monitoring and maintaining appropriate risk management framework in the Central Bank, the Audit Committee also evaluates adequacy and efficiency of internal controls and procedures as a risk management instrument as well as the functions of internal audit.

### The Audit Committee

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

## 2. BASIS OF PREPARATION

### 2.1. Statement of compliance

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

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

More information about circumstances caused by the global pandemic of COVID-19 that affected Central Bank's operations and activities in 2020 is disclosed in Note 3.16. These circumstances did not affect the appropriateness of the going concern assumption of the Central Bank.

### 2.2. Basis of measurement

These financial statements have been prepared under the accrual base of accounting and using the historical cost as a measurement base, except for the following material items which are measured on the following basis at each reporting date:

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

### 2.3. Functional and presentational currency

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

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

The following standards, amendments to the existing standards and interpretations issued by the IASB are effective for the current period:

- Amendments to IFRS 3: "Business combinations" - Definition of a Business (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1: "Presentation of financial statements" and IAS 8: "Accounting policies, changes in accounting estimates and errors" - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 9: "Financial instruments", IAS 39: "Financial instruments: Recognition and Measurement" and IFRS 7: "Financial Instruments: Disclosures" - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- Amendments to references to the Conceptual framework in IFRS standards (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16: "Leases" – COVID-19 Rent Related Concessions (effective for annual periods beginning on or after 1 January 2020).

The application of these standards, amendments and interpretations has no significant impact on the financial statements of the Central Bank in the current period.



## 2. BASIS OF PREPARATION (CONTINUED)

### 2.5. Standards and Interpretations in issue not yet adopted

As at the date of authorization of these financial statements the following standards, revisions and interpretations have been published by the IASB, but are not yet effective and have not been adopted early by the Central Bank:

- Amendments to IFRS 9: “Financial instruments”, IAS 39: “Financial instruments: Recognition and Measurement”, IFRS 7: “Financial Instruments: Disclosures”, IFRS 4: “Insurance Contracts” and IFRS 16: “Leases” - Interest Rate Benchmark Reform Phase 2 (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 17: “Insurance contracts” and IFRS 4: “Insurance contracts” (effective for annual periods beginning on or after 1 January 2021),
- References to the Conceptual Framework (effective for annual periods beginning on or after 1 January 2022),
- Annual improvements to IFRS standards 2018-2020 Cycle (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 16: “Property, Plant and Equipment” - Proceeds before intended use (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37: “Provisions, Contingent Liabilities and Contingent Assets” - Onerous Contracts - Cost of Fulfilling a Contracts (effective for annual periods beginning on or after 1 January 2022),
- IFRS 17: “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 1: “Presentation of financial statements” – Classification of liabilities as current or non-current (effective for annual periods beginning on or after 1 January 2023).

The Central Bank has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Central Bank anticipates that the adoption of these standards, revisions and interpretations will not have a significant impact on the financial statements of the Central Bank.

### 2.6. Reclassification of financial information

Certain not significant comparative balances in these financial statements have been reclassified to align with the presentation used in the current reporting period. These reclassifications have no impact on the Central Bank’s overall financial performance and position for the comparative period and are made only for the purpose of improved disclosures.

### 3. SIGNIFICANT ACCOUNTING POLICIES

Accounting policies set out below have been applied consistently to all periods presented in these financial statements. Material accounting policies relate to the Central Bank's financial assets and financial liabilities which comprise the largest part of total Central Bank's assets and liabilities. Other accounting policies disclosed below are considered to be relevant due to specifics arising from the Central Bank's operations and purpose.

#### 3.1. Income and expense recognition

##### 3.1.1. Interest income and expenses

###### Effective interest rate

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

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

The "amortised cost" of a financial assets or financial liability is the amount at which the financial assets or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and, for financial assets, adjusted for any expected credit loss allowance.

The gross carrying amount of a financial assets is the amortised cost of a financial assets before adjusted for any expected credit loss allowance.

When calculating the effective interest rate for financial instrument, the Central Bank estimates future cash flows considering all contractual terms of the financial instruments, but not expected credit losses. The calculation includes all fees and points paid or received between the Central Bank and other party that are an integral part of the effective interest rate, transaction costs, and all other discounts and premiums.

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

The Central Bank's net interest income calculated using the effective interest rate method includes interest income and expenses on financial assets and financial liabilities at amortised cost and debt instruments at fair value through other comprehensive income.

Accrued interest on financial assets with negative interest rates is recognised as an interest expense in profit or loss and arises from deposits with foreign banks and debt instruments at fair value through other comprehensive income.

Accrued interest on financial liabilities with negative interest rate is recognized as an interest income in profit or loss and arises from deposits from domestic commercial banks due to the reserve requirement policy of the Central Bank applied.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.1. Income and expense recognition (continued)

##### 3.1.2. Fee and commission income and expenses

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

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

##### 3.1.3. Foreign currency transactions and exchange differences

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

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

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

Middle exchange rates of most relevant currencies are provided below:

Middle exchange rate:	31 December 2020	31 December 2019
	KM	KM
CHF	1.801446	1.799126
GBP	2.165757	2.295360
USD	1.592566	1.747994
XDR	2.315409	2.417171

##### 3.1.4. Dividend income

Dividend income from equity instruments is recognized in profit or loss when the Central Bank's right to receive dividend is established. Dividend income arises from BIS shares held by the Central Bank (Note 21).

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.2. Financial assets and financial liabilities

##### 3.2.1. Recognition and initial measurement of financial assets and financial liabilities

Financial assets and financial liabilities are recognized in the statement of financial position when, and only when, the Central Bank becomes a party to the contractual provisions of the financial asset or liability.

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

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

##### 3.2.2. Classification and subsequent measurement

###### 3.2.2.1. Financial assets

The Central Bank can classify its financial assets in the following measurement categories:

- Fair value through other comprehensive income
- Amortised cost and
- Fair value through profit or loss.

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

The classification of financial asset is determined by both:

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

#### **Business model**

The business model reflects how the Central Bank manages the assets in order to generate cash flows. That is, whether the Central Bank's objective is solely to collect the contractual cash flows or to collect both, contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of "Other" business model and measured at fair value through profit or loss. As at reporting dates, the Central Bank manages its assets through following business models:

1. "Hold to collect contractual cash flows" model for financial assets that generate contractual cash flows during its lifetime and
2. "Hold to collect contractual cash flows and sell" model for financial assets that generate contractual cash flows during its lifetime and by selling.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2. Financial assets and financial liabilities (continued)**

##### **3.2.2. Classification and subsequent measurement (continued)**

###### **3.2.2.1. Financial assets (continued)**

The goals of these models are set to generate cash flows and to maintain the liquidity of the Central Bank in order to implement the Central bank's monetary policy.

Contractual cash flows from debt instruments can be managed by both business models. As at reporting dates, the Central Bank's objective is to collect both contractual cash flows and cash flows arising from the sale for all debt instruments.

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

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

The Central Bank's financial assets are recognised at amortised cost or at fair value through other comprehensive income based on assessments of the Central Bank's business model. Financial assets meet the "solely payment of principal and interest" requirement as at reporting dates.

###### **Financial assets at amortised cost**

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

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

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

As at reporting dates, the Central Bank's giro accounts, foreign currency in cash, deposits with foreign banks, special drawing rights with the IMF and other financial assets fall into this category of financial instruments.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2. Financial assets and financial liabilities (continued)**

##### **3.2.2. Classification and subsequent measurement (continued)**

###### **3.2.2.1. Financial assets (continued)**

###### **Financial assets at fair value through other comprehensive income**

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

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

###### **Debt instruments**

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

- Interest income or interest expense is recognised in profit or loss in the period they occurred
- Fair value adjustments are recognised in other comprehensive income in the period they occurred.

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

As at reporting dates, the Central Bank's debt instruments fall into this category of financial instruments.

###### **Equity instruments**

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

As at reporting dates, the Central Bank's all equity instruments at fair value through other comprehensive income are composed of Bank for International Settlements (BIS) and SWIFT shares (Note 21).

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2. Financial assets and financial liabilities (continued)**

##### **3.2.2. Classification and subsequent measurement (continued)**

###### **3.2.2.2. Financial liabilities**

The Central Bank classifies all its financial liabilities as subsequently measured at amortised cost, with the exception of banknotes and coins in circulation which are measured at their nominal value.

Interest income or interest expense arising from financial liabilities measured at amortised cost are recognised in profit or loss using the effective interest rate method. Fee and commission income arising from financial liabilities is recognised when service is provided.

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

###### **3.2.3. Impairment of financial assets**

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

The Central Bank recognises a loss allowance for these losses at each reporting date. The measurement of expected credit losses reflects:

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

Note 6.1. provides more information about how the expected credit loss allowance is measured.

Loss allowances for expected credit losses are calculated and presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: Expected credit losses are calculated on the gross carrying amount of the assets and recorded as a deduction from the gross carrying amount of the assets and
- Debt instruments at fair value through other comprehensive income: Expected credit losses are calculated on the gross carrying amount of the assets, but loss allowance is recognised in other comprehensive income and does not reduce the carrying amount of the financial assets in the statement of financial position.

Impairment gains and losses are recorded in profit or loss regardless of classification of financial assets at each reporting date.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.2. Financial assets and financial liabilities (continued)**

##### **3.2.4. Derecognition of financial assets and financial liabilities**

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

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

#### **3.3. Monetary gold**

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

After initial recognition, monetary gold is re-measured at fair value. Unrealized gains and losses arising from changes in fair value, referring to the price changes of monetary gold, are recognized in the fair value reserve account within other comprehensive income. In the event that unrealized losses exceed the balance in the fair value reserve for monetary gold at the end of the financial year, the Central Bank shall charge the excess against the period's profit.

On the sale of monetary gold, the Central Bank shall recycle existing unrealized gains and losses through profit and loss.

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

#### **3.4. Offsetting**

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

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

#### **3.5. Cash and cash equivalents**

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



### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.6. Property, equipment and intangible assets

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

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

Depreciation and amortization of property, equipment and intangible assets is provided on all assets, except land and assets in the course of construction, on a straight-line basis at prescribed rate designed to write off the cost of the assets over their estimated useful lives. The estimated depreciation and amortization rates during 2019 and 2020 were as follows:

Software	20.0%
Other intangible assets	20.0%
Buildings	1.3% to 4.0%
Equipment	11.0% to 20.0%
Furniture	10.0% to 12.5%
Vehicles	15.5%

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

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

#### 3.7. Impairment of non-financial assets

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

The recoverable amount of other assets is the greater of their value in use and fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.8. Provisions**

Provisions are recognized when the Central Bank has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

#### **3.9. Taxes**

The Central Bank is obliged to pay Value Added Tax for all goods and services purchased. These payables are part of the Central Bank's administrative and other operating expenses. According to the laws on corporate income tax (both Federation of Bosnia and Herzegovina and Republic of Srpska), the Central Bank is excluded from income tax payables.

#### **3.10. Banknotes and coins in circulation**

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

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

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

Costs related to the production and design of banknotes and coins are initially recognized as deferred costs which are part of Central Bank's other assets and are subsequently amortised through administrative and other operating expenses over the period of five years.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.11. Domestic deposits

Domestic deposits include deposits from banks and deposits from the Government and other public institutions. These deposits are the Central Bank's financial liabilities that are initially recognised at fair value and subsequently measured at amortised cost. Domestic deposits include domestic commercial banks' deposits arising from reserve requirement policy of the Central Bank, other bank deposits, deposits from BH institutions and deposits from other public institutions in BH, both state and entity level. The Central Bank's role as a depository and as well as the banker, adviser and fiscal agent are prescribed under the Law on the Central Bank.

#### 3.12. Employee benefits

##### *Short-term employee benefits*

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

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

##### *Long-term employee benefits*

According to local legal requirements, employees of the Central Bank are entitled to receive a one-time benefit on retirement, provided legal conditions are met, such as the age or years of service, which in accordance with the Central Bank's internal Acts is based on six regular monthly salaries paid to the respective employee in the last six months.

Such payments are treated as long-term employee benefits which are calculated annually by independent actuaries using the projected unit credit method. The discount rate used in the calculation of the liability is based on interest rates of domestic corporate bonds and government bonds which exist on the market.

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

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

Other assets and liabilities related to the IMF, belonging to or being the responsibility of BH, are recorded in a special Trust Fund within off-balance-sheet records. Central Bank has an obligation to keep proper records arising from transactions between BH and the IMF, but adhering strictly to the Law on the Central Bank and local legislation in BH that regulates foreign borrowing of BH (Note 33).

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.14. Managed funds for and on behalf of third parties

The Central Bank also maintains certain accounts in foreign currencies related to agreements concluded between the governments in BH and its entities and foreign governments and financial organisations, as well as foreign currency accounts of state institutions and agencies, and of commercial banks, for which the Central Bank acts as an agent (Note 32).

#### 3.15. Significant accounting judgements and estimates

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

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

These financial statements have been prepared based upon conditions existing at 31 December 2020. Conditions in the future may be different from those that resulted in the financial information disclosed in these financial statements. The Management do consider the current uncertainty regarding the impact of global pandemic of COVID-19 in respect of potential material impact on Central Bank's overall financial position and performance.

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

##### *Business model*

Note 3.2.2.1.: Determination of the business model within which the assets are held and assessment of contractual terms of financial assets regarding the "Solely payment of principal and interest" requirement. These assessments determine the classification of financial assets.

##### *Impairment of financial assets*

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.15. Significant accounting judgements and estimates (continued)

##### *Fair value of assets and liabilities*

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

##### *Depreciation and amortisation charge and rates applied*

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

#### 3.16. General implications of COVID-19 spread and related issues for significant accounting judgements and estimates

On 11 March 2020 the World Health Organisation declared a global pandemic as a result of the outbreak and spread of Novel Coronavirus (COVID-19). Consequently, the condition of natural and other disaster has been declared in BH on 17 March 2020. Following this, BH introduced a series of containment measures in the country. The limitations included a ban on all travels outside of the country, limitations on the travels within the country during certain hours of the day and an interruption in the public transport. This lockdown was in effect by the end of May, followed by a gradual relaxation of the measures, but certain limitations and work protocols for certain business activities are still in force.

Throughout 2020, the business activities of the Central Bank were implemented under uncertain and difficult conditions while performing tasks and operations. The same required continuous review and assessment of the situation and adjustment of the Central Bank's operations to the new negative circumstances. Maintaining the stability of the domestic currency under the Currency Board arrangement and fulfilling the legal requirements of the Central bank in the conditions of global pandemic of COVID-19 have required application of specific measures.

The information below is conceived through an overview of the impact of the global pandemic of COVID-19 on the business processes and activities of the Central Bank, which should be considered individually and in relation to each other. Considering the fact that the issues related to the significant judgements and estimations are different in 2020 comparing to 2019, their impact on the reported amounts on assets, liabilities, income and expenses of the Central Bank have been included in the preparation of these financial statements.

**1. Cash management:** The declaration of the condition of natural and other disaster in BH on 17 March 2020 has led to the increased temporary demand for KM banknotes and EUR banknotes by domestic commercial banks. The sudden increase in demand for KM banknotes and EUR banknotes was successfully realised through the Central Bank's vaults and commercial bank's reserve accounts. Disposal of sufficient amount of cash in vaults enabled the Central Bank unhindered and fulfilled execution of legal requirements regarding the guaranteed convertibility of KM. The process was not endangered at any time. Additionally, in the implementation of the activities related to the cash withdrawal, the Central Bank has adopted health care measures to protect all participants in the cash handling process. For more information see Notes 15 and 22.

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 3.16. General implications of COVID-19 spread and related issues for significant accounting judgements and estimates (continued)

**2. Required reserve of the commercial banks and relations with commercial banks:** The required reserve of the commercial banks is the only instrument which can be used by the Central Bank in conducting the monetary policy. During 2020, the Central Bank has continuously monitored the maintaining of the required reserve and liquidity of the banking system and was prepared to provide additional liquidity to the banking system by reducing the required reserve ratio. However, besides the regular fulfillment of required reserve requirements, commercial banks have placed significant amounts of funds on their accounts at the Central Bank above the required reserves. All transactions on the reserve accounts of the commercial banks have been regularly executed by the Central bank during 2020. Reduced credit activities of the commercial banks further influenced the Central Bank's required reserve policy to remain unchanged during 2020. For more information see Note 23.

**3. Guaranteed convertibility of KM:** KM has been convertible in EUR at any time, without restrictions, and every request of commercial banks, the needs of citizens and economy in BH for the supply of cash have been fully met.

**4. Foreign currency reserves of the Central Bank:** During 2020, the Central Bank has continued to implement the foreign currency reserves investment policy with a primary emphasis on security and liquidity of investments which ensured full coverage of KM in freely convertible foreign currency. In terms of investing Central Bank's foreign currency reserves, global pandemic of COVID-19 has additionally worsened existing volatile environment of negative interest rates which reflected generating of net interest income on invested foreign currency reserves in 2020. On the other hand, the increase in negative interest rates had a positive implication on the fair value of debt instruments held by the Central Bank. Domestic currency has been fully covered by net foreign currency reserves that have been in the investible credit range at every moment. For more information see Notes 4, 6, 7 and 17.

**5. Implementation of the function of banking and fiscal agent and depository:** The Central Bank has executed all transactions, orderly and without delay, from its depositors. Servicing of the external debt of BH has been implemented in accordance with servicing plan and submitted orders by the Ministry of Finance and Treasury of BH. The Central Bank has realised the role of the banker, fiscal agent and depository of BH, and allocated the funds to the recipients in accordance with the Law on Central Bank under the Rapid Financing Instrument ("RFI") arrangement concluded between BH and IMF. These funds have been intended for BH to fight against global pandemic of COVID-19 and mitigate adverse effects on the economy. For more information see Note 33.

**6. Payment systems:** The payment systems, owned and managed by the Central Bank, have been properly functioning all the time, all transactions through payment system have been executed in accordance with the schedule. A stabile payment system in BH and regular execution of all payment orders are one of the basic preconditions for the overall financial stability of the country and has not been endangered at any time. For more information see Notes 8 and 34.

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.16. General implications of COVID-19 spread and related issues for significant accounting judgements and estimates (continued)**

**7. The Central Bank internal controls:** The impact of the COVID-19 pandemic through the potential health issues of more employees of the Central Bank who have been responsible for the implementation of the established internal controls has been a major risk to providing its efficiency. The reorganization of the work, activation of the crisis management plan and separation of employees into the teams has ensured the continuity in implementing the business activities of the Central Bank and there has been no downtimes due to the absence of more employees.

Due to the more difficult conditions in which the Central Bank conducted its business activities in 2020 compared to 2019, certain disclosures in these financial statements have been supplemented, where necessary, with additional quantitative and/or qualitative information. Additional attention has been drawn to the significant changes during 2020 compared to 2019. The significance of the change has been considered taking into account the nature of the change, the amount of the change, or both, which was caused by the impact of the COVID-19 global pandemic.

#### 4. CURRENCY BOARD ARRANGEMENT

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

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

Details of compliance with the rule are as follows:

In thousands of KM	31 December 2020	31 December 2019
<b>Gross foreign currency reserves</b>	<b>13,868,029</b>	<b>12,597,095</b>
Cash in foreign currencies	142,202	322,599
Deposits with foreign banks	3,832,072	3,102,765
Debt instruments	9,601,315	8,917,413
Monetary gold	291,561	254,088
Special drawing rights with the IMF	879	230
<b>Liabilities to non-residents</b>	<b>1,688</b>	<b>1,709</b>
<b>Net foreign currency reserves</b> (Gross foreign currency reserves less liabilities to non-residents)	<b>13,866,341</b>	<b>12,595,386</b>
<b>Monetary liabilities</b>	<b>12,970,643</b>	<b>11,824,210</b>
Banknotes and coins in circulation	6,172,457	5,199,916
Deposits from banks	5,901,142	5,743,619
Deposits from the Government and other public institutions	897,044	880,675
<b>NET FOREIGN ASSETS</b> (Net foreign currency reserves less monetary liabilities)	<b>895,698</b>	<b>771,176</b>

The Central Bank is not a profit-oriented institution so its performance measures are specific due to its functions of the prime monetary authority in BH. Net foreign assets are the Central Bank's main financial indicator of achieving and maintaining the stability of domestic currency in BH and its main financial performance measure. Being the part of gross foreign currency reserves, the amount of net foreign assets cannot be assumed as the amount available for fiscal purposes, but the amount that guarantees the stability of domestic currency and absorbs the potential financial risks arising from gross foreign currency reserves management.

During the course of 2020, global pandemic of COVID-19 impacted the Central Bank's basic goal in controlling the monetary policy in BH, both on assets and liabilities side that generate the Currency Board compliance. Central Bank's monetary liabilities increased primary because of increased demand for KM banknotes and holding significant amounts exceeding the required reserve by domestic commercial banks as well as received funds from RFI arrangement concluded between BH and IMF. Gross foreign currency reserves primary increased due to RFI arrangement and financial assets measured at fair value respectively. These fair value effects resulted in increased net foreign assets at 31 December 2020 compared to 31 December 2019.

More information about financial risks to which the Central Bank is exposed when managing gross foreign currency reserves is disclosed in Note 6.



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

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

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

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

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

Fair value for measurement and/or disclosure purposes in these financial statements is determined on such basis, except for measurement that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### 5.1. Financial assets measured at fair value

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

In thousands of KM

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

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

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

In thousands of KM

31 December 2019

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<i>Financial assets measured at fair value through other comprehensive income</i>				
Debt instruments	8,917,413	-	-	8,917,413
Monetary gold	254,088	-	-	254,088
<b>TOTAL</b>	<b>9,171,501</b>	<b>-</b>	<b>-</b>	<b>9,171,501</b>

Financial assets are measured at fair value in statement of financial position using the quoted bid prices in an active market which correspond to Level 1 hierarchy as at reporting dates.

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

In thousands of KM

31 December 2020

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

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

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

In thousands of KM

31 December 2019

	Carrying amount	Fair value
<b>Financial assets</b>		
<i>Financial assets measured at amortized cost:</i>		
Cash in foreign currencies	322,599	322,599
Deposits with foreign banks	3,102,765	3,095,367
Special drawing rights with the IMF	230	230
Other financial assets	2,822	2,822
	<u>3,428,416</u>	<u>3,421,018</u>
<i>Financial assets at measured at fair value through other comprehensive income:</i>		
Other investments	27,813	27,813
	<u>27,813</u>	<u>27,813</u>
<b>Total</b>	<u><b>3,456,229</b></u>	<u><b>3,448,831</b></u>
<b>Financial liabilities</b>		
<i>Financial liabilities measured at amortized cost:</i>		
Banknotes and coins in circulation	5,199,916	5,199,916
Deposits from banks	5,743,619	5,730,552
Deposits from the Government and other public institutions	880,675	878,671
Other financial liabilities	3,904	3,904
<b>Total</b>	<u><b>11,828,114</b></u>	<u><b>11,813,043</b></u>

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

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

## 6. FINANCIAL RISK MANAGEMENT

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

- Cash in foreign currencies,
- Deposits with foreign banks (central banks, commercial banks and BIS),
- Debt instruments,
- Monetary gold,
- Special drawing rights with the IMF,
- Other financial assets (domestic banks' receivables, employees' loans and other receivables) and
- Other investments.

Due to the sudden impact caused by the global pandemic of COVID 19 at the beginning of March 2020, the European Central Bank has taken further non-standard monetary policy measures, with the aim of stabilizing the current conditions on financial markets. However, it has become clear that market yields will remain at a very low level for a long time. For the reason of Currency Board stability, the Central Bank significantly shortened the modified duration of the debt instruments portfolio and thus reduced its exposure to interest rate risk. Certain adjustments were made to the credit risk limits, whereby it was taken into account that there was no significant increase in credit risk, bearing in mind that the national central banks from the ECB's system are repurchasing the debt instruments of the Eurozone countries.

### 6.1. Credit risk

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

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

For the funds recorded in off-balance sheet records, the Central Bank is not exposed to credit risk, as all the risk, which may result from the investments of these funds, is to be borne contractually by the owners of these funds (see also Notes 32 and 33).

### Expected credit loss measurement

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

- Deposits with foreign banks,
- Debt instruments,
- Special drawing rights with IMF and
- Other financial assets (domestic banks' receivables, employees' loans and other receivables).

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

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

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

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

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

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

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

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

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

#### Significant increase in credit risk

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

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

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

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

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

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

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

#### Definition of default

Default criteria are objective evidences of impairment and especially:

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

#### Expected credit loss calculation

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

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

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

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

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

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

#### Forward-looking information incorporation

The purpose of the impairment is to recognize expected credit losses on a lifetime basis for financial assets that had a significant increase in credit risk compared to initially estimated risks, whether the estimation is on individual or collective basis, taking into account all reasonable and substantiated information including those related to the future. If the reasonable and confirmed information are available without necessary cost or effort, it is not possible to rely solely on past information when the Central Bank is determining if there was a significant increase in credit risk in relation to initial evaluation.

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

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

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

#### 6.1.1. Credit risk exposure

The following table shows the reconciliation from the opening to the closing balance of the loss allowance for expected credit losses for financial assets at reporting dates:



## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

#### 6.1.1. Credit risk exposure (continued)

In thousands of KM

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>1. Debt instruments</b>								
<b>As at 1 January - stated</b>	<b>1,343</b>	-	-	<b>1,343</b>	<b>8,993</b>	-	-	<b>8,993</b>
Change in PD calculation at 1 January (Note 14)	-	-	-	-	(7,704)	-	-	(7,704)
<b>As at 1 January - restated</b>	<b>1,343</b>	-	-	<b>1,343</b>	<b>1,289</b>	-	-	<b>1,289</b>
Increases in expected credit losses	713	-	-	713	424	-	-	424
Releases of expected credit losses	(74)	-	-	(74)	(97)	-	-	(97)
Releases due to debt instruments matured	(325)	-	-	(325)	(221)	-	-	(221)
<i>Net increase / (release) during the year</i>	<i>314</i>	-	-	<i>314</i>	<i>(7,598)</i>	-	-	<i>(7,598)</i>
Releases due to debt instruments sold	(59)	-	-	(59)	(52)	-	-	(52)
<b>As at 31 December</b>	<b>1,598</b>	-	-	<b>1,598</b>	<b>1,343</b>	-	-	<b>1,343</b>
<b>2. Deposits with foreign banks</b>								
<b>As at 1 January - stated</b>	<b>724</b>	-	-	<b>724</b>	<b>2,535</b>	-	-	<b>2,535</b>
Change in PD calculation at 1 January (Note 14)	-	-	-	-	(2,117)	-	-	(2,117)
<b>As at 1 January - restated</b>	<b>724</b>	-	-	<b>724</b>	<b>418</b>	-	-	<b>418</b>
Increases in expected credit losses	4,620	-	-	4,620	3,129	-	-	3,129
Releases of expected credit losses	(1,078)	-	-	(1,078)	(158)	-	-	(158)
Releases due to derecognition of term deposits	(3,459)	-	-	(3,459)	(2,665)	-	-	(2,665)
<b>As at 31 December</b>	<b>807</b>	-	-	<b>807</b>	<b>724</b>	-	-	<b>724</b>

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

6.1. Credit risk (continued)

6.1.1. Credit risk exposure (continued)

In thousands of KM

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>3. Special drawing rights with the IMF</b>								
<b>As at 1 January</b>	-	-	-	-	-	-	-	-
Increases in expected credit losses	-	-	-	-	-	-	-	-
Releases of expected credit losses	-	-	-	-	-	-	-	-
<b>As at 31 December</b>	-	-	-	-	-	-	-	-
<b>4. Other financial assets</b>								
<b>As at 1 January</b>	5	-	600	605	5	-	600	605
Increases in expected credit losses	7	-	13	20	7	-	-	7
Releases of expected credit losses	(7)	-	-	(7)	(7)	-	-	(7)
<b>As at 31 December</b>	5	-	613	618	5	-	600	605
<b>Total opening balance at 1 January</b>	<b>2,072</b>	<b>-</b>	<b>600</b>	<b>2,672</b>	<b>11,533</b>	<b>-</b>	<b>600</b>	<b>12,133</b>
Total change in PD calculation	-	-	-	-	(9,821)	-	-	(9,821)
Total net increase in expected credit losses	338	-	13	351	360	-	-	360
<b>Total closing balance at 31 December</b>	<b>2,410</b>	<b>-</b>	<b>613</b>	<b>3,023</b>	<b>2,072</b>	<b>-</b>	<b>600</b>	<b>2,672</b>

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

#### 6.1.2. Credit risk concentration

##### a) Maximum exposure to credit risk – financial instruments subject to impairment

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

In thousands of KM	2020				2019			
Classes of financial instruments	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Cash in foreign currencies</b>								
Gross carrying amount	142,202	-	-	142,202	322,599	-	-	322,599
Loss allowance	-	-	-	-	-	-	-	-
<b>Carrying amount</b>	<b>142,202</b>	<b>-</b>	<b>-</b>	<b>142,202</b>	<b>322,599</b>	<b>-</b>	<b>-</b>	<b>322,599</b>
<b>Deposits with foreign banks</b>								
Gross carrying amount	3,832,879	-	-	3,832,879	3,103,489	-	-	3,103,489
Loss allowance	(807)	-	-	(807)	(724)	-	-	(724)
<b>Carrying amount</b>	<b>3,832,072</b>	<b>-</b>	<b>-</b>	<b>3,832,072</b>	<b>3,102,765</b>	<b>-</b>	<b>-</b>	<b>3,102,765</b>
<b>Debt instruments</b>								
Gross carrying amount	9,601,315	-	-	9,601,315	8,917,413	-	-	8,917,413
Provisions for expected credit losses (recognized in other comprehensive income)	(1,598)	-	-	(1,598)	(1,343)	-	-	(1,343)
<b>Carrying amount</b>	<b>9,601,315</b>	<b>-</b>	<b>-</b>	<b>9,601,315</b>	<b>8,917,413</b>	<b>-</b>	<b>-</b>	<b>8,917,413</b>
<b>Special drawing rights with the IMF</b>								
Gross carrying amount	879	-	-	879	230	-	-	230
Loss allowance	-	-	-	-	-	-	-	-
<b>Carrying amount</b>	<b>879</b>	<b>-</b>	<b>-</b>	<b>879</b>	<b>230</b>	<b>-</b>	<b>-</b>	<b>230</b>
<b>Other financial assets</b>								
Gross carrying amount	2,501	-	613	3,114	2,827	-	600	3,427
Loss allowance	(5)	-	(613)	(618)	(5)	-	(600)	(605)
<b>Carrying amount</b>	<b>2,496</b>	<b>-</b>	<b>-</b>	<b>2,496</b>	<b>2,822</b>	<b>-</b>	<b>-</b>	<b>2,822</b>

**6. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**6.1. Credit risk (continued)**

**6.1.2. Credit risk concentration (continued)**

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

In thousands of KM	31 December 2020	31 December 2019
<b>Carrying amounts</b>		
Monetary gold	291,561	254,088
Other investments	27,813	27,813
<b>TOTAL</b>	<b>319,374</b>	<b>281,901</b>

The Central Bank does not hold any collateral or other credit enhancements to cover this credit risk. As at 31 December 2020 the Central Bank does not have any assets that are past due and does have impaired assets in the amount of KM 613 thousand (31 December 2019: The Central Bank did not have any assets that are past due and had impaired assets in the amount of KM 600 thousand).

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

##### Concentration per credit rating

The tables below present an analysis of the Central Bank's concentration per composite credit rating to the counterparty for its financial assets as at 31 December 2020 and 31 December 2019:

In thousands of KM

31 December 2020

Credit rating	Cash in foreign currencies	Deposits with foreign banks	Debt instruments	Monetary Gold	Special drawing rights with the IMF	Other financial assets	Other investments	Total
AAA	-	1,743,280	2,164,263	-	-	-	-	3,907,543
AA+	-	-	1,283,772	-	-	-	-	1,283,772
AA	-	722,841	3,170,119	-	-	-	-	3,892,960
AA-	-	-	1,269,603	-	-	-	-	1,269,603
A+	-	391,013	-	-	-	-	-	391,013
A	-	875,542	-	-	-	-	-	875,542
A-	-	-	1,095,368	-	-	-	-	1,095,368
II <sup>1</sup>	-	410	-	291,561	879	-	27,813	320,663
BBB+	-	98,986	-	-	-	-	-	98,986
BBB	-	-	-	-	-	-	-	-
BBB-	-	-	618,190	-	-	-	-	618,190
Unrated	142,202	-	-	-	-	2,496	-	144,698
<b>TOTAL</b>	<b>142,202</b>	<b>3,832,072</b>	<b>9,601,315</b>	<b>291,561</b>	<b>879</b>	<b>2,496</b>	<b>27,813</b>	<b>13,898,338</b>

<sup>1</sup> International institutions

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

In thousands of KM

								31 December 2019
Credit rating	Cash in foreign currencies	Deposits with foreign banks	Debt instruments	Monetary Gold	Special drawing rights with the IMF	Other financial assets	Other investments	Total
AAA	-	1,842,449	2,190,752	-	-	-	-	4,033,201
AA+	-	-	1,273,212	-	-	-	-	1,273,212
AA	-	78,191	2,977,360	-	-	-	-	3,055,551
AA-	-	-	1,010,563	-	-	-	-	1,010,563
A+	-	547,273	-	-	-	-	-	547,273
A	-	408,740	-	-	-	-	-	408,740
A-	-	-	840,621	-	-	-	-	840,621
II <sup>2</sup>	-	101	-	254,088	230	-	27,813	282,232
BBB+	-	226,011	-	-	-	-	-	226,011
BBB	-	-	624,905	-	-	-	-	624,905
BBB-	-	-	-	-	-	-	-	-
Unrated	322,599	-	-	-	-	2,822	-	325,421
<b>TOTAL</b>	<b>322,599</b>	<b>3,102,765</b>	<b>8,917,413</b>	<b>254,088</b>	<b>230</b>	<b>2,822</b>	<b>27,813</b>	<b>12,627,730</b>

<sup>2</sup> International institutions

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

##### Geographical concentration of risks of financial assets with credit risk exposure

The following tables break down the Central Bank's main credit risk exposure at their carrying amounts, as categorized by geographical region as at 31 December 2020 and 2019. For the purposes of this disclosure, the Central Bank has allocated exposures to regions based on the country of domicile of its counterparties:

In thousands of KM	EU countries	Non-EU member countries	Bosnia and Herzegovina	Total
Cash in foreign currencies	-	-	142,202	142,202
Deposits with foreign banks	2,864,987	967,085	-	3,832,072
Debt instruments	9,601,315	-	-	9,601,315
Monetary gold	-	291,561	-	291,561
Special drawing rights with the IMF	-	879	-	879
Other financial assets	-	-	2,496	2,496
Other investments	10	27,803	-	27,813
<b>31 December 2020</b>	<b>12,466,312</b>	<b>1,287,328</b>	<b>144,698</b>	<b>13,898,338</b>

In thousands of KM	EU countries	Non-EU member countries	Bosnia and Herzegovina	Total
Cash in foreign currencies	-	-	322,599	322,599
Deposits with foreign banks	2,618,598	484,167	-	3,102,765
Debt instruments	8,917,413	-	-	8,917,413
Monetary gold	-	254,088	-	254,088
Special drawing rights with the IMF	-	230	-	230
Other financial assets	-	-	2,822	2,822
Other investments	10	27,803	-	27,813
<b>31 December 2019</b>	<b>11,536,021</b>	<b>766,288</b>	<b>325,421</b>	<b>12,627,730</b>

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk

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

For the purpose of quantifying the market risks effect on the currency reserves value, the Central Bank applies the Value at Risk (VaR) concept. VaR represents a statistical measure which shows the maximum loss that can occur in foreign currency reserves portfolio due to the changes in the financial instruments prices and the foreign exchange rates, given a certain level of confidence and a particular time horizon. VaR value for market risk is calculated by analytical (parametric) method, based on the mean value of gain/loss or yield rate of observed portfolio and standard deviation of observed data. The Central Bank, when calculating VaR, applies a level of confidence of 99% and a 10-day horizon.

For calculating VaR value of foreign currency reserves portfolio of the Central Bank, all positions which are exposed to market risks in foreign currency reserves portfolio are taken into account. As at 31 December 2020, the exposure of the Central Bank's foreign currency reserves (Value at Risk at a level of confidence of 99% for a 10-day horizon), including fluctuations of the prices of financial instruments and foreign exchange rates against the KM, equals to KM 61,117 thousand (2019: KM 76,418 thousand), or 0.44% of the total financial assets (2019: 0.61% of the total financial assets).

VaR value as at 31 December 2020 and 31 December 2019 is calculated as the sum of componential VaR values:

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

In thousands of KM	31 December 2020	31 December 2019
Interest rate risk	44,722	67,443
Risk of change in EUR price of the monetary gold	16,097	8,699
Foreign exchange risk	298	276
<b>Total VaR</b>	<b>61,117</b>	<b>76,418</b>

#### 6.2.1. Foreign exchange risk

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



## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

#### 6.2.1. Foreign exchange risk (continued)

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

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

The Central Bank had the following foreign currency position as at 31 December 2020 and 31 December 2019:

#### 31 December 2020

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

#### 6.2.1. Foreign exchange risk (continued)

31 December 2019

In thousands of KM	EUR	USD	Other foreign currencies	KM	Total
Cash in foreign currencies	322,523	20	56	-	322,599
Deposits with foreign banks	3,092,673	1,880	8,212	-	3,102,765
Debt instruments	8,917,413	-	-	-	8,917,413
Monetary gold	254,088	-	-	-	254,088
Special drawing rights with the IMF	-	-	230	-	230
Other financial assets	31	-	-	2,791	2,822
Other investments	10	-	-	27,803	27,813
<b>Total financial assets</b>	<b>12,586,738</b>	<b>1,900</b>	<b>8,498</b>	<b>30,594</b>	<b>12,627,730</b>
Banknotes and coins in circulation	-	-	-	5,199,916	5,199,916
Deposits from banks	-	-	-	5,743,619	5,743,619
Deposits from the Government and other public institutions	-	-	-	880,675	880,675
Other financial liabilities	1,194	13	1	2,696	3,904
<b>Total financial liabilities</b>	<b>1,194</b>	<b>13</b>	<b>1</b>	<b>11,826,906</b>	<b>11,828,114</b>
<b>NET FOREIGN EXCHANGE POSITION</b>	<b>12,585,544</b>	<b>1,887</b>	<b>8,497</b>	<b>(11,796,312)</b>	<b>799,616</b>

The Central Bank is not exposed to EUR foreign currency risk due to Currency Board Arrangement aligning KM to EUR at fixed exchange rate of EUR 1: KM 1.95583.

#### 6.2.2. Interest rate risk

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

#### 6.2.2. Interest rate risk (continued)

The Central Bank uses a modified duration of debts instruments as a key measure of interest rate risk exposure. The modified duration is a measure of the price sensitivity of a financial instrument to changes in interest rates, i.e. the market yield of a debt instrument. Modified duration is expressed as the number of years and the longer the duration, the higher the interest rate risk. The modified duration of the portfolio is calculated as a weighted average of the cash flows' maturities of individual financial instruments in the portfolio, where the weight is the present value of the cash flow. During 2020 modified duration was shortened and amounts to 3.40 as at 31 December 2020 (31 December 2019: 3.93) in order to decrease the interest rate risk and further improve the Currency Board stability.

The tables below summarize the Central Bank's exposure to interest rate risk at 31 December 2020 and 31 December 2019:

#### 31 December 2020

In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 Years	Non-interest bearing	Total
Cash in foreign currencies	-	-	-	-	142,202	142,202
Deposits with foreign banks	2,767,073	1,066,938	-	-	(1,939)	3,832,072
Debt instruments	1,877,063	7,652,849	-	-	71,403	9,601,315
Monetary gold	-	-	-	-	291,561	291,561
Special drawing rights with the IMF	879	-	-	-	-	879
Other financial assets	8	5	-	-	2,483	2,496
Other investments	-	-	-	-	27,813	27,813
<b>Total financial assets</b>	<b>4,645,023</b>	<b>8,719,792</b>	<b>-</b>	<b>-</b>	<b>533,523</b>	<b>13,898,338</b>
Banknotes and coins in circulation	-	-	-	-	6,172,457	6,172,457
Deposits from banks	3,109,052	-	-	-	2,792,090	5,901,142
Deposits from the Government and other public institutions	-	-	-	-	897,044	897,044
Other liabilities	-	-	-	-	3,759	3,759
<b>Total financial liabilities</b>	<b>3,109,052</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,865,350</b>	<b>12,974,402</b>
<b>INTEREST RATE GAP</b>	<b>1,535,971</b>	<b>8,719,792</b>	<b>-</b>	<b>-</b>	<b>(9,331,827)</b>	<b>923,936</b>

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

#### 6.2.2. Interest rate risk (continued)

31 December 2019

In thousands of KM	Up to 3 months	From 3 to 12 months	From 1 to 3 years	Over 3 Years	Non-interest bearing	Total
Cash in foreign currencies	-	-	-	-	322,599	322,599
Deposits with foreign banks	2,176,220	927,968	-	-	(1,423)	3,102,765
Debt instruments	1,828,701	7,020,280	-	-	68,432	8,917,413
Monetary gold	-	-	-	-	254,088	254,088
Special drawing rights with the IMF	230	-	-	-	-	230
Other financial assets	10	29	15	-	2,768	2,822
Other investments	-	-	-	-	27,813	27,813
<b>Total financial assets</b>	<b>4,005,161</b>	<b>7,948,277</b>	<b>15</b>	<b>-</b>	<b>674,277</b>	<b>12,627,730</b>
Banknotes and coins in circulation	-	-	-	-	5,199,916	5,199,916
Deposits from banks	3,014,461	-	-	-	2,729,158	5,743,619
Deposits from the Government and other public institutions	-	-	-	-	880,675	880,675
Other liabilities	-	-	-	-	3,904	3,904
<b>Total financial liabilities</b>	<b>3,014,461</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,813,653</b>	<b>11,828,114</b>
<b>INTEREST RATE GAP</b>	<b>990,700</b>	<b>7,948,277</b>	<b>15</b>	<b>-</b>	<b>(8,139,376)</b>	<b>799,616</b>

### 6.3. Liquidity risk

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

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

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

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.3. Liquidity risk (continued)

#### Maturity analysis

Tables below present the financial liabilities of the Central Bank as at 31 December 2020 and 2019 classified into relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date.

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

#### 31 December 2020

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

#### 31 December 2019

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	5,199,916	-	-	-	-	5,199,916
Deposits from banks	5,743,619	-	-	-	-	5,743,619
Deposits from the Government and other public institutions	880,675	-	-	-	-	880,675
Other financial liabilities	3,904	-	-	-		3,904
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>11,828,114</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,828,114</b>

## 7. NET INTEREST INCOME

In thousands of KM

	For the year ended 31 December	
	2020	2019
Interest income arising from:		
Debt instruments (Note 17)	37,922	40,042
Effects of negative deposit interest rates on deposits from domestic commercial banks	13,789	11,093
Financial assets at amortised cost	10	43
<b>Total</b>	<b>51,721</b>	<b>51,178</b>
Interest expense arising from:		
Effects of negative interest rates from deposits with foreign banks	(17,573)	(12,805)
Effects of negative interest rates from debt instruments (Note 17)	(14,624)	(13,553)
<b>Total</b>	<b>(32,197)</b>	<b>(26,358)</b>
<b>Net interest income</b>	<b>19,524</b>	<b>24,820</b>

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

The Central Bank does not apply fee rate on the required reserve amount while the fee rate applied on the amount exceeding the required reserve is linked to the European Central Bank deposit facility rate. Up to 1 May 2019, the fee on the amount exceeding required reserves was calculated by the rate equal to 50% of the European Central Bank deposit facility rate. Starting from 1 May 2019, the fee on the amount exceeding required reserves is calculated by deposit facility rate of European Central Bank. Average balance of amounts exceeding the required reserves for 2020 amounts to KM 2,713,272 thousand (2019: KM 3,013,724 thousand).

Effects of negative interest rates on deposits from domestic commercial banks are the result of the negative interest rate for domestic commercial banks on the amount exceeding the required reserve. During the reporting periods the fee rates on the amount exceeding the required reserve were as follows:

Period	Interest rate	European Central Bank deposit facility rate
<b>2020</b>		
From 1 January to 31 December	(0.50)%	(0.50)%
<b>2019</b>		
From 1 January to 30 April	(0.20)%	(0.40)%
From 1 May to 11 September	(0.40)%	(0.40)%
From 12 September to 31 December	(0.50)%	(0.50)%

More information regarding the required reserve policy of the Central Bank is disclosed in Note 23.

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

## 7. NET INTEREST INCOME (CONTINUED)

Effects of negative interest rates from deposits with foreign banks include the amount of KM 12,605 thousand on term deposits and the amount of KM 4,968 thousand on demand deposits (2019: included the amount of KM 10,018 thousand on term deposits and the amount of KM 2,787 thousand on demand deposits).

## 8. NET FEE AND COMMISSION INCOME

	For the year ended 31 December	
In thousands of KM	2020	2019
Fee and commission income arising from:		
services for local commercial banks	16,765	16,377
services for the Government and other non-banking clients	1,296	1,288
<b>Total</b>	<b>18,061</b>	<b>17,665</b>
Fee and commission expenses arising from:		
Custodian and other expenses for debt instruments	(649)	(605)
Transactions with foreign banks	(34)	(34)
Other fee and commission expenses	(6)	(7)
<b>Total</b>	<b>(689)</b>	<b>(646)</b>
<b>Net fee and commission income</b>	<b>17,372</b>	<b>17,019</b>

The Central Bank calculates fee and commission income under determined tariffs for its services (Note 3.1.2.). Fee and commission income from services for local commercial banks are dominantly generating from providing payment and settlement system services. During the 2020, these services generated fee and commission income in the amount of KM 13,656 thousand (2019: KM 13,661 thousand).

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

	For the year ended 31 December	
In thousands of KM	2020	2019
Realised gains	1,578	238
Realised losses	-	-
<b>Net realised gains from sale of debt instruments at fair value through other comprehensive income</b>	<b>1,578</b>	<b>238</b>

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

# 10. NET FOREIGN EXCHANGE (LOSSES) / GAINS

	For the year ended 31 December	
In thousands of KM	2020	2019
Net unrealised foreign exchange (losses) / gains	(328)	267
Net realised foreign exchange gains	144	40
<b>Net foreign exchange (losses) / gains</b>	<b>(184)</b>	<b>307</b>

# 11. OTHER INCOME

	For the year ended 31 December	
In thousands of KM	2020	2019
Net effects of numismatic collections value adjustments	147	109
Income from grants	50	98
Other income	48	20
Dividend income (Note 21)	-	623
<b>TOTAL</b>	<b>245</b>	<b>850</b>

# 12. PERSONNEL EXPENSES

	For the year ended 31 December	
In thousands of KM	2020	2019
Salaries	9,990	10,645
Contributions and other fees on salaries	5,679	6,064
Other employee benefits	2,093	2,019
Contributions and other fees on other employee benefits	665	665
Net provisions for severance payments, net increase (Note 25)	151	277
<b>TOTAL</b>	<b>18,578</b>	<b>19,670</b>

Personnel expenses include KM 3,544 thousand (2019: KM 3,749 thousand) of defined pension contributions paid into the public pension funds in BH. Contributions are calculated as percentage of the gross salary.

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

During 2020, the average number of employees was 366 (2019: 371).



### 13. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	For the year ended 31 December	
In thousands of KM	2020	2019
Expenses for production and design of banknotes and coins	2,855	1,959
Payment systems maintenance expenses	1,613	1,426
IT infrastructure expenses	781	765
Maintenance expenses	648	497
Other administrative and operating expenses	3,210	3,305
<b>TOTAL</b>	<b>9,107</b>	<b>7,952</b>

### 14. PROVISIONS FOR EXPECTED CREDIT LOSSES, NET (INCREASE) / RELEASE

	For the year ended 31 December	
In thousands of KM	2020	2019
Gains from expected credit losses arising from:		
Deposits with foreign banks	4,537	4,940
<i>Change in PD calculation (Notes 6.1. and 6.1.1)</i>	-	2,117
<i>Release of provisions for expected credit losses</i>	4,537	2,823
Debt instruments:	399	8,022
<i>Change in PD calculation (Notes 6.1. and 6.1.1)</i>	-	7,704
<i>Release of provisions for expected credit losses</i>	399	318
Other financial assets	7	7
<i>Release of provisions for expected credit losses</i>	7	7
Special drawing rights with the IMF	-	-
<i>Release of provisions for expected credit losses</i>	-	-
	<b>4,943</b>	<b>12,969</b>
Allowance for expected credit losses arising from:		
Deposits with foreign banks	(4,620)	(3,129)
Debt instruments	(713)	(424)
Other financial assets	(20)	(7)
Special drawing rights with the IMF	-	-
	<b>(5,353)</b>	<b>(3,560)</b>
<b>Provisions for expected credit losses, net (increase) / release</b>	<b>(410)</b>	<b>9,409</b>

## 15. CASH IN FOREIGN CURRENCIES

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

In thousands of KM	31 December 2020	31 December 2019
Cash in foreign currencies		
- EUR	142,128	322,523
- CHF	39	39
- USD	18	20
- GBP	17	17
<b>TOTAL</b>	<b>142,202</b>	<b>322,599</b>

## 16. DEPOSITS WITH FOREIGN BANKS

Deposits with foreign banks represent Central Bank's invested foreign currency reserves held on the foreign central and commercial banks accounts. They include demand deposits and term deposits.

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

In thousands of KM	31 December 2020	31 December 2019
<b>Term deposits:</b>		
- EUR	2,391,656	2,308,476
Less impairment for expected credit losses	(628)	(495)
	<b>2,391,028</b>	<b>2,307,981</b>
<b>Demand deposits:</b>		
- EUR	1,430,953	784,914
- CHF	7,089	5,999
- GBP	2,080	2,220
- USD	1,101	1,880
	<b>1,441,223</b>	<b>795,013</b>
Less impairment for expected credit losses	(179)	(229)
	<b>1,441,044</b>	<b>794,784</b>
<b>TOTAL</b>	<b>3,832,072</b>	<b>3,102,765</b>

## 16. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

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

In thousands of KM	31 December 2020	31 December 2019
Up to 1 month	1,032,703	1,184,603
From 1 to 2 months	253,800	155,675
From 2 to 3 months	525,637	272,789
From 3 to 4 months	96,154	192,865
From 4 to 12 months	483,362	502,544
<b>Total</b>	<b>2,391,656</b>	<b>2,308,476</b>
Less impairment for expected credit losses	(628)	(495)
<b>TOTAL</b>	<b>2,391,028</b>	<b>2,307,981</b>

During the year 2020 the negative interest rates on demand deposits denominated in EUR ranged from 0.75% p.a. to 0.40% p.a. (2019: negative interest rates from 0.75% p.a. to 0.30% p.a.) and on term deposits negative interest rates ranged from 0.60% p.a. to 0.33% p.a. (2019: from 0.52% p.a. to 0.34% p.a.).

Deposits with foreign banks include negative accrued interest in the amount KM 1,939 thousand as at 31 December 2020 (2019: included negative accrued interest in the amount KM 1,423 thousand).

The average negative effective yield rate on deposits with foreign banks amounted to 0.50% p.a. (2019: 0.42% p.a.).

Deposits with foreign banks analysed by the type of the bank invested in, are as follows:

In thousands of KM	31 December 2020	31 December 2019
Foreign central banks	2,375,955	1,594,746
Foreign commercial banks	1,456,924	1,508,743
Less impairment for expected credit losses (Note 6.1.1)	(807)	(724)
<b>TOTAL</b>	<b>3,832,072</b>	<b>3,102,765</b>

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

## 16. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

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

In thousands of KM	31 December 2020	31 December 2019
<b>France</b>		
Term deposits	1,035,892	391,166
Demand deposits	78,200	78,200
	<b>1,114,092</b>	<b>469,366</b>
<b>Germany</b>		
Term deposits	-	-
Demand deposits	1,068,666	421,679
	<b>1,068,666</b>	<b>421,679</b>
<b>Great Britain</b>		
Term deposits	486,390	408,933
Demand deposits	-	-
	<b>486,390</b>	<b>408,933</b>
<b>Switzerland</b>		
Term deposits	479,888	482,345
Demand deposits	410	101
	<b>480,298</b>	<b>482,446</b>
<b>Slovakia</b>		
Term deposits	389,486	156,285
Demand deposits	-	-
	<b>389,486</b>	<b>156,285</b>
<b>Luxembourg</b>		
Term deposits	-	869,747
Demand deposits	234,599	234,598
	<b>234,599</b>	<b>1,104,345</b>
<b>Netherlands</b>		
Term deposits	-	-
Demand deposits	58,650	58,649
	<b>58,650</b>	<b>58,649</b>
<b>USA</b>		
Term deposits	-	-
Demand deposits	698	1,786
	<b>698</b>	<b>1,786</b>
<b>Total term deposits</b>	<b>2,391,656</b>	<b>2,308,476</b>
<b>Total demand deposits</b>	<b>1,441,223</b>	<b>795,013</b>
Less impairment for expected credit losses	(807)	(724)
<b>TOTAL</b>	<b>3,832,072</b>	<b>3,102,765</b>

## 17. DEBT INSTRUMENTS

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

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

In thousands of KM	31 December 2020	31 December 2019
Coupon debt instruments	8,522,422	8,848,981
Accrued interest on coupon debt instruments	67,513	68,432
	<b>8,589,935</b>	<b>8,917,413</b>
Discount debt instruments	1,007,490	-
Net premium on discount debt instruments	3,890	-
	<b>1,011,380</b>	<b>-</b>
<b>TOTAL</b>	<b>9,601,315</b>	<b>8,917,413</b>

As at 31 December 2020, provisions for expected credit losses for debt instruments, recognized in other comprehensive income, amount to KM 1,598 thousand (31 December 2019: KM 1,343 thousand). The net allowance for expected credit losses for the year ended 31 December 2020 recognized in profit or loss amounts to KM 314 thousand (2019: net gain of KM 7,598 thousand) (Note 14).

The average effective yield rate on debt instruments at fair value through other comprehensive income amounted to 0.27% p.a. (2019: the average effective yield rate amounted to 0.32% p.a.).

Debt instruments at fair value through other comprehensive income, analysed by country where funds are invested, are as follows:

	31 December 2020		31 December 2019	
	In thousands of KM	%	In thousands of KM	%
France	3,170,119	33.02	2,977,360	33.39
Germany	1,442,399	15.02	1,448,191	16.24
Belgium	1,269,603	13.22	1,010,563	11.33
Spain	1,095,368	11.41	840,620	9.43
Netherlands	721,864	7.52	742,561	8.33
Austria	716,421	7.46	689,066	7.73
Italy	618,190	6.44	624,905	7.01
Finland	567,351	5.91	584,147	6.54
<b>TOTAL</b>	<b>9.601.315</b>	<b>100.00</b>	<b>8.917.413</b>	<b>100.00</b>

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

## 17. DEBT INSTRUMENTS (CONTINUED)

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

In thousands of KM	2020	2019
<b>As at 1 January</b>	<b>8,917,413</b>	<b>8,225,439</b>
Purchases during the year	3,077,979	3,156,187
Sales during the year	(316,129)	(258,849)
Interest income recognized during the year (Note 7)	37,922	40,042
Effects of negative interest rates recognized during the year (Note 7)	(14,624)	(13,553)
Maturities of debt instruments	(2,065,454)	(2,198,367)
Maturities of coupon	(117,465)	(111,349)
Net unrealised change in fair value during the year	81,673	77,863
<b>As at 31 December</b>	<b>9,601,315</b>	<b>8,917,413</b>

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

In thousands of KM	31 December 2020	31 December 2019
Up to 3 months	422,511	413,804
From 3 to 12 months	2,382,176	1,657,217
From 1 to 3 years	1,750,147	1,694,727
Over 3 years	5,046,481	5,151,665
<b>TOTAL</b>	<b>9,601,315</b>	<b>8,917,413</b>

Regardless of contractual maturities of debt instruments, they are considered to be liquid for meeting the liquidity needs at any time. Diversification of investments in debt instruments with different maturities is done because of existing sufficient liquid financial assets of the Central Bank in foreign currency. This diversification does not limit selling of debt instruments if needed.

## 18. MONETARY GOLD

As at 31 December 2020, fair value of monetary gold amounts to KM 291,561 thousand, representing 96,000 ounces of gold at KM 3,037 per ounce (31 December 2019: KM 254,088 thousand, representing 96,000 ounces of gold at KM 2,647 per ounce). Monetary gold is denominated in EUR.

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

In thousands of KM	2020	2019
Opening balance	254,088	209,996
Net change in fair value during the year	37,473	44,092
Closing balance	291,561	254,088

## 19. OTHER ASSETS

In thousands of KM	31 December 2020	31 December 2019
Receivables from domestic banks	1,756	1,833
Receivables from employee based on domestic currency deficit	600	600
Giro accounts	411	575
Other miscellaneous financial assets	347	419
<b>Total</b>	<b>3,114</b>	<b>3,427</b>
Less impairment for expected credit losses	(618)	(605)
<b>Total other financial assets</b>	<b>2,496</b>	<b>2,822</b>
Prepaid expenses	8,933	7,539
Numismatic collections	986	840
Other miscellaneous nonfinancial assets	256	256
<b>Total other nonfinancial assets</b>	<b>10,175</b>	<b>8,635</b>
<b>TOTAL</b>	<b>12,671</b>	<b>11,457</b>

As at 31 December 2020, prepaid expenses include expenditure of KM 7,860 thousand incurred on the production of banknotes and coins (31 December 2019: KM 6,973 thousand incurred on the production of banknotes and coins). As explained in Note 3.10, such costs are initially deferred and subsequently amortized over a period of five years.

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

In thousands of KM	Land and buildings	Equipment and furniture	Vehicles	Other	Assets under construction	Property and equipment total	Software and other intangible assets	Intangible assets under construction	Intangible assets total
<b>Cost</b>									
<b>As at 1 January 2019</b>	<b>44,368</b>	<b>25,587</b>	<b>1,910</b>	<b>1,041</b>	<b>29</b>	<b>72,935</b>	<b>15,017</b>	<b>284</b>	<b>15,301</b>
Additions	-	-	-	-	5,620	5,620	-	691	691
Brought into use	-	804	-	30	(834)	-	616	(616)	-
Write offs and disposals	-	(1,415)	(47)	(2)	-	(1,464)	(172)	-	(172)
<b>As at 31 December 2019</b>	<b>44,368</b>	<b>24,976</b>	<b>1,863</b>	<b>1,069</b>	<b>4,815</b>	<b>77,091</b>	<b>15,461</b>	<b>359</b>	<b>15,820</b>
Additions	-	-	-	-	2,289	2,289	-	162	162
Brought into use	-	1,845	-	20	(1,866)	(1)	150	(150)	-
Write offs and disposals	-	(816)	(183)	-	-	(999)	(3)	-	(3)
<b>As at 31 December 2020</b>	<b>44,368</b>	<b>26,005</b>	<b>1,680</b>	<b>1,089</b>	<b>5,238</b>	<b>78,380</b>	<b>15,608</b>	<b>371</b>	<b>15,979</b>
<b>Accumulated depreciation and amortization</b>									
<b>As at 1 January 2019</b>	<b>5,395</b>	<b>20,552</b>	<b>1,530</b>	<b>781</b>	<b>-</b>	<b>28,258</b>	<b>13,959</b>	<b>-</b>	<b>13,959</b>
Charge for the year	579	1,255	93	49	-	1,976	470	-	470
Write offs and disposals	-	(1,408)	(47)	(2)	-	(1,457)	(172)	-	(172)
<b>As at 31 December 2019</b>	<b>5,974</b>	<b>20,399</b>	<b>1,576</b>	<b>828</b>	<b>-</b>	<b>28,777</b>	<b>14,257</b>	<b>-</b>	<b>14,257</b>
Charge for the year	579	1,346	78	38	-	2,041	491	-	491
Write offs and disposals	-	(815)	(183)	-	-	(998)	(3)	-	(3)
<b>As at 31 December 2020</b>	<b>6,553</b>	<b>20,930</b>	<b>1,471</b>	<b>866</b>	<b>-</b>	<b>29,820</b>	<b>14,745</b>	<b>-</b>	<b>14,745</b>
<b>Net book value</b>									
<b>As at 1 January 2020</b>	<b>38,394</b>	<b>4,577</b>	<b>287</b>	<b>241</b>	<b>4,815</b>	<b>48,314</b>	<b>1,204</b>	<b>359</b>	<b>1,563</b>
<b>As at 31 December 2020</b>	<b>37,815</b>	<b>5,075</b>	<b>209</b>	<b>223</b>	<b>5,238</b>	<b>48,560</b>	<b>863</b>	<b>371</b>	<b>1,234</b>

Assets under construction relate mainly to acquisition of the land for new business premises for Main Unit of Sarajevo of the Central Bank. As at reporting dates, the Central Bank has no encumbrances over its property, equipment and intangible assets.



## 21. OTHER INVESTMENTS

The structure of other investments is as follows:

In thousands of KM	31 December 2020	31 December 2019
<i>Equity instruments:</i>		
Shares in BIS (Note 29)	27,803	27,803
Shares in SWIFT	10	10
<b>TOTAL</b>	<b>27,813</b>	<b>27,813</b>

Equity instruments are composed of ordinary BIS shares with a nominal value of SDR 5,000 per share (paid up at 25% of their nominal value by former Yugoslavia). In accordance with the Statue of BIS, remaining 75% of the share's nominal value is payable upon call for payment from BIS by the Central Bank. BIS shares are owned exclusively by the central banks and monetary authorities, including the Central Bank. BIS Shares are not tradable.

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

BIS and SWIFT shares represent unquoted equity instruments whose fair value cannot be reliably determined.

During the year the Central Bank did not receive a dividend from BIS bank due to its decision to transfer all BIS annual profit to appropriate reserves (2019: the Central Bank received the dividend in the amount of KM 623 thousand) (Note 11).

## 22. BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation can be analysed as follows:

In thousands of KM	2020	2019
Banknotes and coins in circulation at 1 January	5,199,916	4,750,614
Net increase during the year	972,541	449,302
<b>Banknotes and coins in circulation at 31 December</b>	<b>6,172,457</b>	<b>5,199,916</b>

## 22. BANKNOTES AND COINS IN CIRCULATION (CONTINUED)

		31 December 2020		31 December 2019	
Denomination	Pieces	Value in thousands of KM	Pieces	Value in thousands of KM	
Coins	0.05	81,761,386	4,088	77,246,288	3,862
Coins	0.10	117,249,537	11,725	112,021,868	11,202
Coins	0.20	84,840,207	16,968	81,275,215	16,255
Coins	0.50	41,308,086	20,654	38,932,789	19,466
Coins	1	59,456,249	59,456	57,804,822	57,805
Coins	2	16,415,974	32,832	14,951,396	29,903
Coins	5	12,548,849	62,744	11,945,662	59,728
<b>Total coins</b>		<b>413,580,288</b>	<b>208,467</b>	<b>394,178,040</b>	<b>198,221</b>
Banknotes	10	13,551,703	135,517	13,746,862	137,469
Banknotes	20	10,068,856	201,377	8,762,192	175,244
Banknotes	50	24,556,493	1,227,825	20,561,074	1,028,054
Banknotes	100	34,926,392	3,492,639	27,672,872	2,767,287
Banknotes	200	4,533,156	906,632	4,468,203	893,641
<b>Total banknotes</b>		<b>87,636,600</b>	<b>5,963,990</b>	<b>75,211,203</b>	<b>5,001,695</b>
<b>TOTAL</b>		<b>501,216,888</b>	<b>6,172,457</b>	<b>469,389,243</b>	<b>5,199,916</b>

## 23. DEPOSITS FROM BANKS

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

In thousands of KM	31 December 2020	31 December 2019
Deposits of domestic commercial banks	5,900,698	5,743,011
Reserve accounts of the Central Bank organizational units	411	575
Special deposit of domestic commercial banks – blocked funds	33	33
<b>TOTAL</b>	<b>5,901,142</b>	<b>5,743,619</b>

Deposits of domestic commercial banks are placed in accordance with reserve requirement policy of the Central Bank as well as to meet obligations for settling payment transactions between commercial banks mutually as with the Central Bank. As at 31 December 2020 the total amount of KM 5,900,698 thousand represents deposits of 24 banks (2019: KM 5,743,011 thousand represented deposits of 24 banks).

Deposits from banks include negative accrued interest in the amount KM 1,302 thousand as at 31 December 2020 (31 December 2019: included negative accrued interest in the amount KM 1,304 thousand).

## 23. DEPOSITS FROM BANKS (CONTINUED)

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

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

Amounts exceeding the required reserve are deposits that domestic commercial banks voluntary hold on their reserve accounts. The Central Bank calculates interest on that deposits. Calculation policy for interest rate on deposits placed by domestic commercial banks during the reporting periods is provided in Note 7.

The global pandemic of COVID-19 did not lead to withdrawing amounts exceeding the required reserve by domestic commercial banks. As stated before, these amounts represent funds that domestic commercial banks have chosen to hold on their reserve accounts, without any limits by the Central Bank (Note 3.16.)

## 24. DEPOSITS FROM THE GOVERNMENT AND OTHER PUBLIC INSTITUTIONS

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

In thousands of KM	31 December 2020	31 December 2019
Budgetary deposits of BH institutions	579,869	553,745
Deposits of other public institutions	231,805	176,640
Deposits of other local governments and government institutions	85,047	150,285
Deposit account under the IMF transactions	323	5
<b>TOTAL</b>	<b>897,044</b>	<b>880,675</b>

## 25. PROVISIONS

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

Movement in provisions is presented below:

In thousands of KM

	Litigations	Severance payments	2020 Total
<b>As at 1 January</b>	-	<b>1,394</b>	<b>1,394</b>
Released provisions	-	(13)	(13)
Increase in provisions	-	164	164
<b>Total recognized in profit or loss</b>	-	<b>151</b>	<b>151</b>
Amounts paid	-	(131)	(131)
<b>As at 31 December</b>	-	<b>1,414</b>	<b>1,414</b>

In thousands of KM

	Litigations	Severance payments	2019 Total
<b>As at 1 January</b>	-	<b>1,259</b>	<b>1,259</b>
Released provisions	-	(7)	(7)
Increase in provisions	-	284	284
<b>Total recognized in profit or loss</b>	-	<b>277</b>	<b>277</b>
Amounts paid	-	(142)	(142)
<b>As at 31 December</b>	-	<b>1,394</b>	<b>1,394</b>

## 26. COMMITMENTS AND CONTINGENCIES

### *Litigations*

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

### *Commitments*

As at 31 December 2020 and 2019, the Central Bank has no unrecognised contractual commitments.

## 27. OTHER LIABILITIES

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

In thousands of KM	31 December 2020	31 December 2019
Suppliers	1,932	2,095
IMF Accounts No. 1 and 2 (Note 33)	1,587	1,657
Accrued liabilities for current period costs	135	88
World bank deposits	101	52
Other financial liabilities	4	12
<b>Total other financial liabilities</b>	<b>3,759</b>	<b>3,904</b>
Non-financial liabilities on various bases	106	95
Collected and deferred income	54	98
<b>Total other nonfinancial liabilities</b>	<b>160</b>	<b>193</b>
<b>TOTAL</b>	<b>3,919</b>	<b>4,097</b>

## 28. NET PROFIT FOR THE YEAR AND PROFIT ALLOCATION

The following table presents the components of profit and loss account for the reporting periods to which additional disclosure is given for complete understanding of the Central Bank achieved result for the year:

In thousands of KM	2020	2019
<b>FINANCIAL RESULT BEFORE PROVISIONS FOR EXPECTED CREDIT LOSSES</b>	<b>8,318</b>	<b>13,166</b>
Provisions for expected credit losses, net (increase) / release	(410)	9,409
<b>NET PROFIT FOR THE YEAR</b>	<b>7,908</b>	<b>22,575</b>

Decline in Financial result before provisions for expected credit losses in 2020 compared to 2019 reflects the consequences of Central Bank's operations that were undertaken in order to safeguard the stability of domestic currency, guarantee KM convertibility and contribute to the overall financial stability in BH. Significant increase in Central Bank's monetary liabilities, dominantly caused by RFI arrangement, exposed the Central Bank's gross foreign reserves to additional interest expense.

Taking into account the Central Bank function, basic goals and tasks, the amount of net profit cannot be used as a financial measure of Central Bank's successfully operating and this financial information is given only for financial disclosure purpose. Currency Board compliance is the financial measure of Central Bank's successful operations (Note 4).

## 28. NET PROFIT FOR THE YEAR AND PROFIT ALLOCATION (CONTINUED)

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

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

This ratio, before the profit allocation in 2020 amounted to 4.34% (2019: 4.56%). According to the Decision of the Governing Board, total amount of net profit for the 2020 financial year in the amount of KM 7,908 thousand is allocated to the general reserves (retained earnings) of the Central Bank (2019: total of the net profit for the 2019 financial year in the amount of KM 22,575 thousand was allocated to the general reserves (retained earnings) of the Central Bank).

### 2020

#### Before profit allocation

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

#### Profit allocation

	(In thousands of KM)
<b>Net profit before allocation</b>	<b>7,908</b>
Allocation of profit to general reserves (retained earnings)	7,908

#### After profit allocation

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

## 28. NET PROFIT FOR THE YEAR AND PROFIT ALLOCATION (CONTINUED)

2019

### Before profit allocation

(In thousands of KM)

<b>Monetary liabilities</b>	<b>11,824,210</b>
Initial capital and general reserves (retained earnings)	539,720
<b>Ratio - initial capital and general reserves (retained earnings) / monetary liabilities</b>	<b>4.56%</b>

### Profit allocation

(In thousands of KM)

<b>Net profit before allocation</b>	<b>22,575</b>
Allocation of profit to general reserves (retained earnings)	22,575

### After profit allocation

(In thousands of KM)

<b>Monetary liabilities</b>	<b>11,824,210</b>
Initial capital and general reserves (retained earnings)	562,295
<b>Ratio - Initial capital and general reserves (retained earnings) / monetary liabilities</b>	<b>4.76%</b>

## 29. EQUITY

The structure of equity is presented in the following table:

In thousands of KM	31 December 2020	31 December 2019
Initial capital	25,000	25,000
General reserves (Retained earnings)	545,203	537,295
Other reserves	31,300	31,300
Fair value reserves for debt and equity instruments at fair value through other comprehensive income	291,527	211,373
Provisions for expected credit losses	1,598	1,343
Fair value reserves for monetary gold	87,703	50,230
<b>TOTAL</b>	<b>982,331</b>	<b>856,541</b>

### Initial capital

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

### General reserves (Retained earnings)

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

## 29. EQUITY (CONTINUED)

### Other reserves

Other reserves relate to following:

- Special reserves from grants in the amount of KM 3,497 thousand, which relate to grants received in cash from the Council of Ministers of Bosnia and Herzegovina on 12 June 1998. The status of these reserves is regulated by the Decision of the Governing Board of the Central Bank with the approval of the Presidency of Bosnia and Herzegovina. The right to utilise the reserves from grants fall within the competence of the Governing Board of the Central Bank.
- Amounts received in accordance with the Succession Agreement of the former Yugoslavia in the amount of KM 27,803 thousand and relates to shares in BIS (Note 21).

### Fair value reserves

Fair value reserves for debt instruments and monetary gold represent cumulative unrealised gains and losses arising from changes in fair value of these financial assets during the holding period. Such gains and losses are not available for any distribution. Increase in fair value reserves dominantly generate total comprehensive income in the reporting periods.

### Provisions for expected credit losses

Provisions for expected credit losses relate to debt instruments measured at fair value through other comprehensive income. For more information see note 6.1.1.

## 30. CASH AND CASH EQUIVALENTS

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

In thousands of KM	31 December 2020	31 December 2019
Foreign currency deposits with maturity up to three months or less from the date of acquisition	1,325,647	1,381,184
Foreign currency demand deposits	1,441,223	795,013
Cash in foreign currencies	142,202	322,599
Special Drawing Rights with the IMF	879	230
Giro accounts	411	575
<b>Total</b>	<b>2,910,362</b>	<b>2,499,601</b>
Less impairment for expected credit losses	(674)	(629)
<b>TOTAL</b>	<b>2,909,688</b>	<b>2,498,972</b>



### 30. CASH AND CASH EQUIVALENTS (CONTINUED)

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

In thousands of KM

	2020	2019
<b>As at 1 January</b>	<b>629</b>	<b>1,619</b>
Foreign currency demand deposits	(50)	(242)
Foreign currency deposits with maturity up to three months or less from the date of acquisition	95	(748)
Cash in foreign currencies	-	-
Special Drawing Rights with the IMF	-	-
Giro accounts	-	-
<b>As at 31 December</b>	<b>674</b>	<b>629</b>

### 31. RELATED PARTY TRANSACTIONS

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

### 31. RELATED PARTY TRANSACTIONS (CONTINUED)

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

In thousands of KM  
2020

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

In thousands of KM  
2019

	BH Ministry of Finance and Treasury	BH Deposit Insurance Agency	BH Indirect Taxation Authority	Total
<b>ASSETS</b>				
Other assets	24	1	-	25
<b>TOTAL</b>	<b>24</b>	<b>1</b>	<b>-</b>	<b>25</b>
<b>LIABILITIES</b>				
Deposits from depositors	546,735	165,033	85,844	797,612
Other liabilities	-	-	1	1
<b>TOTAL</b>	<b>546,735</b>	<b>165,033</b>	<b>85,845</b>	<b>797,613</b>
<b>INCOME</b>				
Fee and commission income	35	12	4	51
<b>TOTAL</b>	<b>35</b>	<b>12</b>	<b>4</b>	<b>51</b>

In executing its functions of the banker, the depository and the fiscal agent prescribed by the Law on the Central Bank, the Central Bank also maintains certain bookkeeping and executes transactions for the State and state institutions that are recorded off-balance. More information about these off-balance records is disclosed in Notes 32 and 33.

### 31. RELATED PARTY TRANSACTIONS (CONTINUED)

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.

#### Remuneration of key management members

The total remuneration of the members of the key management personnel in 2020 amounted to KM 889 thousand, out of which KM 556 thousand was related to salaries and other remuneration and KM 333 thousand to taxes and contributions (in 2019 out of total amount of KM 932 thousand the amount of KM 579 thousand was related to salaries and other remuneration and KM 353 thousand was related to taxes and contributions).

### 32. OFF-BALANCE SHEET ITEMS

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

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

Off-balance sheet items consist of:

In thousands of KM	31 December 2020	31 December 2019
Deposits of USAID	2,497	2,497
<b>Deposits of non-residents</b>	<b>2,497</b>	<b>2,497</b>
Deposits of the Council of Ministers of BH:	8,556	10,582
<i>Deposits of the Council of Ministers of BH on the basis of succession</i>	41	46
<i>Deposits of the Council of Ministers of BH regarding the servicing of foreign debt</i>	6,738	8,641
<i>Deposits of the Council of Ministers of BH regarding the Budget of BH institution</i>	1,528	1,622
<i>Other deposits of the Council of Ministers of BH</i>	249	273
Deposits of other residents:	13,459	15,305
<i>Deposits - Retirement allowance from Germany</i>	-	5
<i>Deposit accounts of banks</i>	13,459	15,300
<b>Deposits of residents</b>	<b>22,015</b>	<b>25,887</b>
Deposit Insurance Agency of BH cash account	73,684	70,356
<b>Total – BH public institutions</b>	<b>73,684</b>	<b>70,356</b>
<b>TOTAL</b>	<b>98,196</b>	<b>98,740</b>

BH Ministry of Finance and Treasury is the institution that acts on behalf of Council of Ministers of BH and state in deposit management and coordination in the presented table. As at 31 December 2020 the total of these funds amount to KM 11,053 thousand (2019: KM 13,079 thousand).

## **32. OFF-BALANCE SHEET ITEMS (CONTINUED)**

### **USAID Deposits**

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

### **Residents' investments related to securities**

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

## **33. BH MEMBERSHIP WITH THE IMF**

According to arrangements concluded between BH and the IMF, the Central Bank is designated as a fiscal agent and depository for BH membership with the IMF. The Central Bank's role as a fiscal agent is specific due to "Currency Board" arrangement. By performing the function of fiscal agent defined by the Law on the Central Bank and by the Law on the borrowing, debt and guarantees in Bosnia and Herzegovina, the Central Bank is not obliged in any way to pay any debt of BH nor can be attributed to pay such debt nor its foreign currency reserves can in no way be considered as a guarantee for the payment of such debt. The Central Bank acts on behalf of the BH in dealing with the IMF but does not have any responsibility for assets and liabilities related to the membership.

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

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

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

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

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

### 33. BH MEMBERSHIP WITH THE IMF (CONTINUED)

SDR allocation is also interest-bearing. Ministry of Finance and Treasury of BH pays interest on special drawing rights allocation.

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

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

In thousands of KM

	31 December 2020	31 December 2019
Quota	614,046	641,034
Special drawing rights with the IMF	879	230
<b>TOTAL ASSETS</b>	<b>614,925</b>	<b>641,264</b>
IMF account No.1	1,535	1,603
IMF account No.2	52	54
Securities	1,520,009	945,780
SDR allocation	372,517	388,890
Accrued interest on SDR allocation	65	506
Accounts of payable charges	1,670	912
<b>TOTAL LIABILITIES</b>	<b>1,895,848</b>	<b>1,337,745</b>
<b>BH NET POSITION WITH THE IMF</b>	<b>1,280,923</b>	<b>696,481</b>

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

BH net position with the IMF is increased due to remittances under the RFI arrangement concluded between BH and the IMF. Based on the remitted funds, a security (Promissory Note) was issued by the BH Ministry of Finance and Treasury as a guarantee for the assumed obligations of BH to the IMF and delivered to the Central Bank for the custody.

The Central Bank received funds on behalf of BH based on the approved loan to the BH under the RFI arrangement to mitigate the economic consequences of the global pandemic of COVID-19 on 22 April 2020. Received funds increased the Central Bank gross foreign currency reserves and the financial liabilities in the approximate amount of KM 651,291 thousand.

#### **34. DOMESTIC PAYMENT AND SETTLEMENT SYSTEM**

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

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

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

The GC System is an interbank clearing system (bilateral and multilateral) for transactions in the amounts lower or equal to KM 10 thousand. The settlement of net positions of participants in GC is carried out through settlement accounts in RTGS as well as settlement of transactions of legal persons acting as clearing agents, such as card transaction operators. Participants of the system are banks licenced to perform payment operations that are RTGS participants, as well as the Central Bank.

The system is adjusted to SEPA standard, i.e. ISO 20022. The clearing of payment orders of all the GC participants is carried out by defining the net position of each individual participant as a result of the settlement of all credits and debits of participants for each clearing cycle.

##### **Credit risk**

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

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

##### **Operational risk**

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

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

#### **34. DOMESTIC PAYMENT AND SETTLEMENT SYSTEM (CONTINUED)**

The Central Bank has defined the following Contingency Settlement Procedures:

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

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

#### **35. EVENTS AFTER THE REPORTING PERIOD**

No adjusting or non-adjusting events have occurred between 31 December 2020 and the date of authorization of these financial statements.