



Centralna banka  
BOSNE I HERCEGOVINE  
Централна банка  
БОСНЕ И ХЕРЦЕГОВИНЕ



## FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

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



# CONTENT

|   | <b>Page</b> |
|---|-------------|
| Financial Reporting Responsibility  | 1           |
| Independent Auditor's Report  | 2 - 4       |
| Statement of Financial Position   | 5           |
| Statement of Profit or Loss   | 6           |
| Statement of Comprehensive Income   | 7           |
| Statement of Changes in Equity  | 8 - 9       |
| Statement of Cash Flows   | 10 - 11     |
| Notes to the Financial Statements   | 12 - 84     |
| 1 General information   |             |
| 2 Basis of preparation  |             |
| 3 Material accounting policy information  |             |
| 4 Currency board arrangement  |             |
| 5 Classification and fair value measurement of financial assets and financial liabilities               |             |
| 6 Financial risk management   |             |
| 7 Cash in foreign currencies  |             |
| 8 Deposits with foreign banks   |             |
| 9 Special Drawing Rights with the IMF   |             |
| 10 Debt instruments at fair value through other comprehensive income                                    |             |
| 11 Monetary gold  |             |
| 12 Debt instruments at amortised cost   |             |
| 13 Other assets   |             |
| 14 Property and equipment   |             |
| 15 Intangible assets  |             |
| 16 Other investments  |             |
| 17 Banknotes and coins in circulation   |             |
| 18 Deposits from banks  |             |
| 19 Deposits from the Government and other public institutions   |             |
| 20 Provisions   |             |
| 21 Other liabilities  |             |
| 22 Net interest income  |             |
| 23 Net fee and commission income  |             |
| 24 Net realised (losses) from sale of debt instruments at fair value through other comprehensive income |             |
| 25 Net realised gains from sale of monetary gold  |             |
| 26 Net foreign exchange (losses)  |             |
| 27 Impairment on financial assets, net increases / decreases  |             |
| 28 Other income   |             |
| 29 Personnel expenses   |             |
| 30 Administrative and other operating expenses  |             |
| 31 Costs of production of banknotes and coins   |             |
| 32 Allocation of annual net profit  |             |
| 33 Equity   |             |
| 34 Cash and cash equivalents  |             |
| 35 Related party transactions   |             |
| 36 Off-balance sheet deposits   |             |
| 37 BH membership with the IMF   |             |
| 38 Domestic payment and settlement systems  |             |
| 39 Events after the reporting period  |             |

## FINANCIAL REPORTING RESPONSIBILITY

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


The Management is responsible for the consistent application of selected accounting policies, making judgements and estimates that are reasonable and prudent and for maintaining proper accounting records to enable the preparation of the financial statements at any time. The Management has a general responsibility for taking steps which are reasonably available and for implementation of such internal controls to safeguard the assets of the Central Bank of Bosnia and Herzegovina and to prevent and detect fraud and other irregularities.

The Governing Board is responsible for selecting suitable accounting policies to conform to applicable International Financial Reporting Standards. The Governing Board considers the financial statements and oversees the Central Bank of Bosnia and Herzegovina financial reporting process.

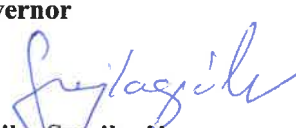
In overseeing the financial reporting process, the Governing Board is assisted by the Audit Committee, which is consisted of three independent members. The Audit Committee reviews the annual financial statements, which are then considered and approved by the Governing Board and submitted to the Parliamentary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

These 2023 financial statements have been audited by the independent auditors of the Central Bank of Bosnia and Herzegovina ERNST & YOUNG d.o.o. Sarajevo and ERNST & YOUNG d.o.o. Ljubljana and their report is presented on pages 2 to 4. The independent auditors have been provided with full and unrestricted access to all information and communication needed to implement and discuss their audit procedures.

The accompanying financial statements set out on pages 5 to 84 are approved by the Governing Board on 28 March 2024.

  
**Jasmina Selimović, Ph.D.**  
**Chairwoman of the Governing Board**  
**Governor**



  
**Meliha Smajlagić**  
**Head of Accounting and Finance Department**



Ernst & Young d.o.o.  
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## Independent auditor's report

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

#### Opinion

We have audited the financial statements of Central Bank of Bosnia and Herzegovina (the Central Bank), which comprise the Statement of Financial Position as at 31 December 2023, 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 material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Central Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS).

#### Basis for Opinion

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

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

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

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

In preparing the financial statements, the Management is responsible for assessing the Central Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Central Bank or to cease operations, or has no realistic alternative but to do so.

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

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## Independent auditor's report (*continued*)

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

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

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

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

## Independent auditor's report (*continued*)

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

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

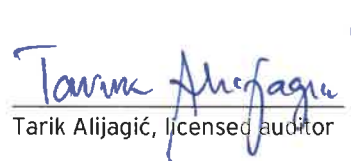
We also provide the Governing Board and the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable,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



Danijela Mirković, procurator

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

Sarajevo, 28 March 2024



Tarik Alijagić, licensed auditor

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

Sarajevo, 28 March 2024



Janez Uranič, partner

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

Ljubljana, 28 March 2024

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

## STATEMENT OF FINANCIAL POSITION

| In thousands of KM  | Note                  | 31 December<br>2023 | As at<br>31 December<br>2022 |
|---|-----------------------|---------------------|------------------------------|
| <b>ASSETS</b>   |                       |                     |                              |
| Cash in foreign currencies  | <a href="#">7</a>     | 455,191             | 572,020                      |
| Deposits with foreign banks                                       | <a href="#">8</a>     | 8,326,590           | 8,273,200                    |
| Special Drawing Rights with the IMF                               | <a href="#">9, 37</a> | 2,073               | 149                          |
| Debt instruments at fair value through other comprehensive income | <a href="#">10</a>    | 6,150,130           | 5,887,589                    |
| Monetary gold   | <a href="#">11</a>    | 175,459             | 160,040                      |
| Debt instruments at amortised cost                                | <a href="#">12</a>    | 1,180,421           | 1,172,862                    |
| Other assets  | <a href="#">13</a>    | 17,384              | 19,280                       |
| Property and equipment  | <a href="#">14</a>    | 47,310              | 48,535                       |
| Intangible assets   | <a href="#">15</a>    | 864                 | 844                          |
| Other investments   | <a href="#">16</a>    | 27,813              | 27,813                       |
| <b>TOTAL ASSETS</b>   |                       | <b>16,383,235</b>   | <b>16,162,332</b>            |
| <b>LIABILITIES AND EQUITY</b>                                     |                       |                     |                              |
| <b>LIABILITIES</b>  |                       |                     |                              |
| Banknotes and coins in circulation                                | <a href="#">17</a>    | 7,565,108           | 7,436,097                    |
| Deposits from banks   | <a href="#">18</a>    | 7,083,235           | 7,217,387                    |
| Deposits from the Government and other public institutions        | <a href="#">19</a>    | 752,898             | 958,245                      |
| Provisions  | <a href="#">20</a>    | 2,025               | 897                          |
| Other liabilities   | <a href="#">21</a>    | 68,669              | 4,301                        |
| <b>Total liabilities</b>  |                       | <b>15,471,935</b>   | <b>15,616,927</b>            |
| <b>EQUITY</b>   |                       |                     |                              |
| Initial capital   |                       | 25,000              | 25,000                       |
| Reserves  |                       | 886,300             | 520,405                      |
| <b>Total equity</b>   | <a href="#">33</a>    | <b>911,300</b>      | <b>545,405</b>               |
| <b>TOTAL LIABILITIES AND EQUITY</b>                               |                       | <b>16,383,235</b>   | <b>16,162,332</b>            |

The accompanying notes on pages 12 to 84 are an integral part of these financial statements.



## STATEMENT OF PROFIT OR LOSS

| In thousands of KM   | Note                          | For the year ended<br>31 December |                 |
|--|-------------------------------|-----------------------------------|-----------------|
|  |                               | 2023                              | 2022            |
| Interest income  |                               | 330,687                           | 78,832          |
| Interest expense   |                               | (14,269)                          | (39,026)        |
| <b>NET INTEREST INCOME</b>   | <a href="#"><u>22</u></a>     | <b>316,418</b>                    | <b>39,806</b>   |
| Fee and commission income  |                               | 21,945                            | 22,704          |
| Fee and commission expenses  |                               | (534)                             | (791)           |
| <b>NET FEE AND COMMISSION INCOME</b>   | <a href="#"><u>23</u></a>     | <b>21,411</b>                     | <b>21,913</b>   |
| Net realised (losses) from sale of debt instruments at fair value through other comprehensive income | <a href="#"><u>24</u></a>     | (22,487)                          | (63,470)        |
| Net realised gains from sale of monetary gold  | <a href="#"><u>25</u></a>     | -                                 | 60,014          |
| Net foreign exchange (losses)  | <a href="#"><u>26</u></a>     | (202)                             | (42)            |
| Impairment on financial assets, net increases / decreases  | <a href="#"><u>27</u></a>     | 100                               | (924)           |
| Other income   | <a href="#"><u>28</u></a>     | 793                               | 850             |
| <b>OPERATING INCOME</b>  |                               | <b>316,033</b>                    | <b>58,147</b>   |
| Personnel expenses   | <a href="#"><u>29</u></a>     | (23,074)                          | (18,622)        |
| Administrative and other operating expenses  | <a href="#"><u>30</u></a>     | (7,500)                           | (6,991)         |
| Costs of production of banknotes and coins   | <a href="#"><u>31</u></a>     | (4,404)                           | (3,732)         |
| Depreciation and amortisation charge   | <a href="#"><u>14, 15</u></a> | (2,794)                           | (2,903)         |
| <b>OPERATING EXPENSES</b>  |                               | <b>(37,772)</b>                   | <b>(32,248)</b> |
| <b>NET PROFIT FOR THE YEAR</b>   | <a href="#"><u>32</u></a>     | <b>278,261</b>                    | <b>25,899</b>   |

The accompanying notes on pages 12 to 84 are an integral part of these financial statements.



## STATEMENT OF COMPREHENSIVE INCOME

| In thousands of KM   | Note  | For the year ended<br>31 December |                  |
|--|---|-----------------------------------|------------------|
|  |   | 2023                              | 2022             |
| <b>NET PROFIT FOR THE YEAR</b>   |   | <b>278,261</b>                    | <b>25,899</b>    |
| <b>Other comprehensive income / (loss)</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   | <a href="#">10</a>                          | 113,948                           | (365,150)        |
| Net change in provisions for expected credit losses recognised in profit or loss during the year | <a href="#">6.1.1.</a> , <a href="#">27</a> | 99                                | (239)            |
| Reclassification to profit or loss from sale of debt instruments                                 | <a href="#">24</a>                          | 22,487                            | 63,470           |
|  |   | <b>136,534</b>                    | <b>(301,919)</b> |
| <b>Monetary gold</b>   |   |                                   |                  |
| Net change in fair value during the year   | <a href="#">11</a>                          | 15,419                            | 19,996           |
| Reclassification to profit or loss from sale of monetary gold                                    | <a href="#">25</a>                          | -                                 | (60,014)         |
|  |   | <b>15,419</b>                     | <b>(40,018)</b>  |
| <b>Total other comprehensive income / (loss)</b>   |   | <b>151,953</b>                    | <b>(341,937)</b> |
| <b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>  |   | <b>430,214</b>                    | <b>(316,038)</b> |

The accompanying notes on pages 12 to 84 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY

| In thousands of KM  | Initial capital | Fair value reserves for debt and equity instruments | Fair value reserves for monetary gold | Other reserves | General reserves (Retained earnings) | Total reserves | Total equity   |
|---|-----------------|---|---------------------------------------|----------------|--------------------------------------|----------------|----------------|
| <b>Balance at 1 January 2023</b>  | <b>25,000</b>   | <b>(143,005)</b>                                    | <b>58,111</b>                         | <b>31,300</b>  | <b>573,999</b>                       | <b>520,405</b> | <b>545,405</b> |
| <b>Total comprehensive income for the year</b>  | -               | <b>136,534</b>                                      | <b>15,419</b>                         | -              | <b>278,261</b>                       | <b>430,214</b> | <b>430,214</b> |
| Net profit for the year ( <a href="#">Note 32</a> )   | -               | -   | -                                     | -              | 278,261                              | 278,261        | 278,261        |
| <b>Other comprehensive income</b>   | -               | <b>136,534</b>                                      | <b>15,419</b>                         | -              | -                                    | <b>151,953</b> | <b>151,953</b> |
| <i>Net increase in fair value for debt instruments</i>  | -               | <i>113,948</i>                                      | -                                     | -              | -                                    | <i>113,948</i> | <i>113,948</i> |
| <i>Net increases in provisions for expected credit losses for debt instruments recognised in profit or loss</i> | -               | <i>99</i>   | -                                     | -              | -                                    | <i>99</i>      | <i>99</i>      |
| <i>Reclassification to profit or loss from sale of debt instruments</i>   | -               | <i>22,487</i>                                       | -                                     | -              | -                                    | <i>22,487</i>  | <i>22,487</i>  |
| <i>Net increase in fair value for monetary gold</i>   | -               | -   | <i>15,419</i>                         | -              | -                                    | <i>15,419</i>  | <i>15,419</i>  |
| Profit allocation to the budget of Bosnia and Herzegovina ( <a href="#">Note 32</a> )                           | -               | -   | -                                     | -              | (64,319)                             | (64,319)       | (64,319)       |
| <b>Balance at 31 December 2023</b>  | <b>25,000</b>   | <b>(6,471)</b>                                      | <b>73,530</b>                         | <b>31,300</b>  | <b>787,941</b>                       | <b>886,300</b> | <b>911,300</b> |

The accompanying notes on pages 12 to 84 are an integral part of these financial statements.

## STATEMENT OF CHANGES IN EQUITY (CONTINUED)

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

The accompanying notes on pages 12 to 84 are an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

|   |                        | For the year ended<br>31 December |                  |
|---|------------------------|-----------------------------------|------------------|
| In thousands of KM  | Note                   | 2023                              | 2022             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                        |                                   |                  |
| <b>Net profit for the year</b>  |                        | <b>278,261</b>                    | <b>25,899</b>    |
| Adjusted for:   |                        |                                   |                  |
| Interest income   | <a href="#">22</a>     | (330,687)                         | (78,832)         |
| Interest expense  | <a href="#">22</a>     | 14,269                            | 39,026           |
| Impairment on financial assets, net (increases) / decreases   | <a href="#">27</a>     | (100)                             | 924              |
| Net realised losses from sale of debt instruments at fair value through other comprehensive income    | <a href="#">24</a>     | 22,487                            | 63,470           |
| Net realised (gains) from sale of monetary gold   | <a href="#">25</a>     | -                                 | (60,014)         |
| Net foreign exchange losses   | <a href="#">26</a>     | 202                               | 42               |
| Income from grants  |                        | (3)                               | (3)              |
| Provisions, net increases in / (releases) of  | <a href="#">20, 29</a> | 1,255                             | (327)            |
| Net (gains) / losses on disposal of property, equipment and intangible assets                         |                        | (2)                               | 3                |
| Dividend income recognised in profit or loss  | <a href="#">28</a>     | (721)                             | (721)            |
| Depreciation and amortisation charge  | <a href="#">14, 15</a> | 2,794                             | 2,903            |
| <b>Net cash flows used in operating activities before changes in operating assets and liabilities</b> |                        | <b>(12,245)</b>                   | <b>(7,630)</b>   |
| <b>Changes in operating assets and liabilities</b>  |                        |                                   |                  |
| (Increase) in term deposits with foreign banks  |                        | (748,816)                         | (566,900)        |
| (Increase) / decrease in debt instruments at fair value through other comprehensive income            |                        | (148,593)                         | 5,376,853        |
| (Increase) in debt instruments at amortised cost  |                        | (7,553)                           | (1,173,087)      |
| Decrease in monetary gold   |                        | -                                 | 161,943          |
| (Decrease) / increase in other assets   |                        | 1,107                             | (1,601)          |
| Increase in banknotes and coins in circulation  | <a href="#">17</a>     | 129,011                           | 512,279          |
| (Decrease) in deposits from banks   |                        | (135,333)                         | (1,336)          |
| (Decrease) in deposits from the Government and other public institutions                              |                        | (205,347)                         | (471,351)        |
| Increase / (decrease) in other liabilities  |                        | 116                               | (3,885)          |
| Payments from provisions  | <a href="#">20</a>     | (127)                             | (182)            |
| Interest received   |                        | 307,731                           | 75,142           |
| Interest paid   |                        | (13,088)                          | (39,026)         |
| <b>Net cash from operating activities</b>   |                        | <b>(833,137)</b>                  | <b>3,861,219</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                        |                                   |                  |
| Proceeds from sale of property and equipment  |                        | 3                                 | -                |
| Purchases of property, equipment and intangible assets  | <a href="#">14, 15</a> | (1,594)                           | (1,125)          |
| Dividend received   |                        | 721                               | 721              |
| <b>Net cash used in investing activities</b>  |                        | <b>(870)</b>                      | <b>(404)</b>     |

## STATEMENT OF CASH FLOWS (CONTINUED)

| In thousands of KM  | Note               | For the year ended<br>31 December |                  |
|---|--------------------|-----------------------------------|------------------|
|   |                    | 2023                              | 2022             |
| Net effects from impairment for expected credit losses on cash and cash equivalents |                    | 266                               | (894)            |
| Net effects of foreign exchange rates on cash and cash equivalents                  |                    | (266)                             | (14)             |
| <b>Net (decrease) / increase in cash and cash equivalents</b>                       |                    | <b>(834,007)</b>                  | <b>3,859,907</b> |
| <b>Cash and cash equivalents at the beginning of the year</b>                       |                    | <b>7,846,633</b>                  | <b>3,986,726</b> |
| <b>Cash and cash equivalents at the end of the year</b>                             | <a href="#">34</a> | <b>7,012,626</b>                  | <b>7,846,633</b> |

The accompanying notes on pages 12 to 84 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 (“BH”). Its establishment, organisation and operations have been defined by the Law on the Central Bank of Bosnia and Herzegovina, Official Gazette BH no: 1/97, 29/02, 08/03, 13/03, 14/03, 09/05, 76/06 and 32/07 (the “Law on the Central Bank”), adopted by the Parliamentary Assembly of Bosnia and Herzegovina, according to the General Framework Peace Agreement in Bosnia and Herzegovina (the Constitution).

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

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

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

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

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

The Central Bank main tasks, as defined by the Law on the Central Bank, include:

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

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

## 1. GENERAL INFORMATION (CONTINUED)

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

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

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

The key management members of the Central Bank are:

### The Governing Board

|                           |                                  |
|---------------------------|----------------------------------|
| Jasmina Selimović Ph.D.   | Chairwoman (from 3 January 2024) |
| Senad Softić Ph.D.        | Chairman (until 3 January 2024)  |
| Radomir Božić Ph.D.       | Member                           |
| Danijela Martinović Ph.D. | Member                           |
| Mirza Kršo Ph.D.          | Member (from 3 January 2024)     |
| Darko Tomaš Ph.D.         | Member (from 3 January 2024)     |
| Šerif Isović M.Sc.        | Member (until 3 January 2024)    |
| Dragan Kulina Ph.D.       | Member (until 3 January 2024)    |

More information about the changes in the Governing Board members are disclosed in [Note 39](#).

### The Management

|                         |                                 |
|-------------------------|---------------------------------|
| Jasmina Selimović Ph.D. | Governor (from 3 January 2024)  |
| Senad Softić Ph.D.      | Governor (until 3 January 2024) |
| Ernadina Bajrović M.Sc. | Vice Governor                   |
| Željko Marić Ph.D.      | Vice Governor                   |
| Marko Vidaković M.Sc.   | Vice Governor                   |

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

The members of the Audit Committee are:

### The Audit Committee

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



## 2. BASIS OF PREPARATION

### 2.1. Statement of compliance

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

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

More information on the conditions in the environment under which the Central Bank’s operations have been performed in 2023, significantly affecting the Central Bank’s reported balances of assets, liabilities, income and expenses, is disclosed in [Note 3.13.](#)

### 2.2. Basis of measurement

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

| Item  | Basis of measurement |
|---|----------------------|
| Debt instruments 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 monetary unit of BH which is the KM. All financial information has been rounded to the nearest thousand (unless otherwise stated).

### 2.4. Changes in accounting policy and disclosures

#### 2.4.1. New and amended standards

The accounting policies adopted are consistent with those of the previous financial year except for the following IFRS amendments which have been adopted by the Bank as of 1 January 2023:

- **IFRS 17: Insurance Contracts**

The standard is effective for annual periods beginning on or after 1 January 2023. This is a comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. IFRS 17 applies to all types of insurance contracts issued, as well as to certain guarantees and financial instruments with discretionary participation contracts. The Central Bank does not issue contracts in scope of IFRS 17; therefore, its application does not have an impact on the Central Bank’s financial performance, financial position or cash flows.

As a consequence, this standard had no impact on the financial statements of the Central Bank.

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

The Amendments are effective for annual periods beginning on or after 1 January 2023. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose ‘significant’ accounting policies with a requirement to disclose ‘material’ accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures.

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

## 2. BASIS OF PREPARATION (CONTINUED)

### 2.4. Changes in accounting policy and disclosures (continued)

#### 2.4.1. New and amended standards (continued)

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

The amendments become effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty, if they do not result from a correction of prior period error. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

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

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

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

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

- **IAS 12 Income taxes: International Tax Reform - Pillar Two Model Rules (Amendments)**

The amendments are effective immediately upon issuance, but certain disclosure requirements are effective later. The Organisation for Economic Co-operation and Development (OECD) published the Pillar Two model rules in December 2021 to ensure that large multinational entities would be subject to a minimum 15% tax rate. On 23 May 2023, the IASB issued International Tax Reform - Pillar Two Model Rules - Amendments to IAS 12. The amendments introduce a mandatory temporary exception to the accounting for deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules and disclosure requirements for affected entities on the potential exposure to Pillar Two income taxes. The Amendments require, for periods in which Pillar Two legislation is (substantively) enacted but not yet effective, disclosure of known or reasonably estimable information that helps users of financial statements understand the entity's exposure arising from Pillar Two income taxes. To comply with these requirements, entities are required to disclose qualitative and quantitative information about their exposure to Pillar Two income taxes at the end of the reporting period. The disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after 1 January 2023, but are not required for any interim period ending on or before 31 December 2023.

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

## 2. BASIS OF PREPARATION (CONTINUED)

### 2.4. Changes in accounting policy and disclosures (continued)

#### 2.4.2. Standards issued but not yet effective and not early adopted

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

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

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

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

- **IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosure - Supplier Finance Arrangements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2024, with earlier application permitted. The amendments supplement requirements already in IFRS and require an entity to disclose the terms and conditions of supplier finance arrangements. Additionally, entities are required to disclose at the beginning and end of reporting period the carrying amounts of supplier finance arrangement financial liabilities and the line items in which those liabilities are presented as well as the carrying amounts of financial liabilities and line items, for which the finance providers have already settled the corresponding trade payables. Entities should also disclose the type and effect of non-cash changes in the carrying amounts of supplier finance arrangement financial liabilities, which prevent the carrying amounts of the financial liabilities from being comparable. Furthermore, the amendments require an entity to disclose as at the beginning and end of the reporting period the range of payment due dates for financial liabilities owed to the finance providers and for comparable trade payables that are not part of those arrangements. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

**3. BASIS OF PREPARATION (CONTINUED)**

**3. Changes in accounting policy and disclosures (continued)**

**2.4.2 Standards issued but not yet effective and not early adopted (continued)**

• **IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability (Amendments)**

The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted. The amendments specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. A currency is considered to be exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. If a currency is not exchangeable into another currency, an entity is required to estimate the spot exchange rate at the measurement date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions. The amendments note that an entity can use an observable exchange rate without adjustment or another estimation technique. The requirements of this standard are not expected to have a material impact on the Central Bank's financial statements.

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

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

### 3. MATERIAL ACCOUNTING POLICY INFORMATION

Disclosed material accounting policies have been applied by the Central Bank consistently to all periods presented in these financial statements.

#### 3.1 Financial assets and financial liabilities

##### 3.1.1. Classification of financial assets and financial liabilities

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

#### A FINANCIAL ASSETS

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

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

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

The classification of financial asset is determined by:

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

#### ***Business model***

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

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

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

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

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 3.1. Financial assets and financial liabilities (continued)

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

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

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

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

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

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

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

#### **B Financial liabilities**

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

##### 3.1.2. Initial recognition of financial assets and financial liabilities

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

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

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. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

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

##### **3.1.3. Subsequent measurement of financial assets and financial liabilities**

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

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

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

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

#### **A Financial assets**

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

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

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

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

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

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

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

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



### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 3.1. Financial assets and financial liabilities (continued)

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

###### Equity instruments

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

As at reporting dates, the Central Bank's equity instruments at fair value through other comprehensive income are composed of The Bank for International Settlements (BIS) and SWIFT (Society for Worldwide Interbank Financial Telecommunication) shares ([Note 16](#)).

###### Impairment of financial assets

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

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

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

[Note 6.1.](#) provides more information about how the expected credit losses are measured.

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

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

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

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

### **3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)**

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

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

#### **B Financial liabilities**

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

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

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

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

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

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

#### **3.2. Offsetting**

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

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

#### **3.3. Cash and cash equivalents**

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

#### **3.4. Monetary gold**

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

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

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

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

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

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

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

Depreciation and amortisation of property, equipment and intangible assets are calculated on all assets, except land and assets in the course of construction, on a straight-line basis at prescribed rate designed to write off the cost of the assets over their estimated useful lives. The estimated depreciation and amortisation rates during 2023 and 2022 were as follows:

##### **Property and equipment**

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

##### **Intangible assets**

|                         |       |
|-------------------------|-------|
| Software                | 20.0% |
| Other intangible assets | 20.0% |

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

##### **Impairment of non-financial assets**

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

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

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

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

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 3.6. Banknotes and coins in circulation

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

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

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

#### 3.7. Deposits of banks and depositors

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

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

#### 3.8. Provisions

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

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

Provisions include the provision amounts for the severance payments and jubilee awards and provisions for litigations. Provisions are released only for such expenditure for which provisions are recognised at inception. If the outflow of economic benefits to settle the obligations is no longer probable, the provision is reversed.

#### 3.9. Income and expense recognition

##### Interest income and expenses

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

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

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

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

Accrued interest on financial assets with positive interest rate, i.e., yield is recognised in profit or loss as interest income. Accrued interest on financial assets with negative interest rate, i.e., yield is recognised in profit or loss as the effects of negative interest rates within the interest expense. As at reporting dates, the effects of negative interest rates on financial assets arise from deposits with foreign banks and debt instruments at fair value through other comprehensive income, while interest income includes interest income from deposits with foreign banks, debt instruments at fair value through other comprehensive income, debt instruments at amortised cost and Special Drawing Rights with the IMF.

Accrued interest on financial liabilities at amortised cost is recognised in profit or loss as interest expense, i.e., as the effects of negative deposit interest rates on financial liabilities within the interest income. As at reporting dates, the accrued interests on financial liabilities include interest expenses arising from deposits from resident banks and the effects of negative interest rates arising from deposits from resident banks due to the applied required reserve policy of the Central Bank.

#### Fee and commission income and expenses

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

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

#### Foreign currency transactions and foreign exchange differences

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

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

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

Middle exchange rates of most relevant currencies are provided below:

| Middle exchange rate: | 31 December 2023 | 31 December 2022 |
|-----------------------|------------------|------------------|
|                       | KM               | KM               |
| EUR                   | 1.95583          | 1.95583          |
| CHF                   | 2.112127         | 1.986219         |
| GBP                   | 2.250538         | 2.205168         |
| USD                   | 1.769982         | 1.833705         |
| XDR                   | 2.381282         | 2.450479         |

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

##### **Dividend income**

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

##### **Employee benefits**

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

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

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

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

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

##### **Costs of production of banknotes and coins**

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

##### **Taxes**

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

#### 3.10. Fund management for and on behalf of third parties

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

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

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

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 3.11. Financial arrangements of Bosnia and Herzegovina with the International Monetary Fund (continued)

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

#### 3.12. Significant accounting judgements and estimates

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

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

These financial statements have been prepared based upon conditions existing at 31 December 2023. Future conditions may be different from those that resulted in the financial information disclosed in these financial statements. The Management continuously monitors the increased factors of uncertainty which may significantly influence the financial performances of the Central Bank in the future period.

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

##### *Business model*

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

##### *Impairment of financial assets*

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

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

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



### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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

##### *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.

#### 3.13. Conditions in the environment for performing the Central Bank's operations in 2023

The presence of high inflation, as well as high interest rates, together with increased geopolitical tensions and conflicts continued during 2023. Increased uncertainties in macroeconomic and geopolitical environment and leading central banks' decisions primary determined the movements and conditions on the global financial markets and eurozone financial market. During 2023, the European Central Bank ("ECB") has raised key interest rates on six occasions in the total of 200 basis points, reflecting the eurozone interest rates and market yields. The above-mentioned circumstances directly affected the Central Bank's foreign currency reserve investment process in 2023. The influence of these circumstances on financial risk management is disclosed in more detail in [Note 6](#).

The restructuring of interest-bearing foreign currency reserves components in the direction of active adjustment to the existing market conditions, within prescribed regulations, has resulted in significant amounts of realised foreign currency interest income for 2023. The Central Bank's foreign currency interest income is primary generated from interest income on deposits with foreign banks. During 2023, the Central Bank has released debt instruments that were contracted at negative and low yields in the past periods by selling and reinvesting them under existing positive yields and interest rates. The increase in debt instruments at fair value through other comprehensive income by purchasing was made with shorter maturities of the purchased debt instruments during 2023. The change in fair value arising from monetary gold holding has been positive in 2023. In that manner, the volatility of Central Bank's equity from changes in fair value of the Central Bank's financial assets which are subsequently measured at fair value through other comprehensive income was significantly reduced and total net positive effects on this basis were achieved in 2023.

Above-mentioned Central Bank's activities resulted in realised other and total comprehensive income for 2023, which significantly strengthened the equity of the Central Bank compared to 2022.

More information about changes and amounts of significant foreign currency reserves components and their influence on profit or loss account and equity of the Central Bank is disclosed in the following notes:

| <b>Note</b>        | <b>Title</b>   |
|--------------------|--|
| <a href="#">8</a>  | Deposits with foreign banks  |
| <a href="#">10</a> | Debt instruments at fair value through other comprehensive income                                    |
| <a href="#">11</a> | Monetary gold  |
| <a href="#">22</a> | Net interest income  |
| <a href="#">24</a> | Net realised (losses) from sale of debt instruments at fair value through other comprehensive income |
| <a href="#">33</a> | Equity   |

### 3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

#### 3.13. Conditions in the environment for performing the Central Bank's operations in 2023 (continued)

The decrease in the amount of monetary liabilities for 2023 is primarily caused by KM purchases and sales with resident banks and depositors resulting in total of net KM purchase for 2023. In addition, resident banks were withdrawing and returning KM banknotes and coins through the Central Bank's dislocated vaults with a non-cyclical intensity, which resulted in cumulative net increase in KM banknotes and coins in circulation in 2023 and simultaneous net decrease of resident bank's reserve accounts.

All resident banks have regularly fulfilled the required reserve in accordance with the Central Bank's legal regulations. From 1 January 2023, the Central Bank has started with the implementation of new established remuneration rates regarding the required reserve instrument, introducing the positive remuneration rates for resident banks on their reserve accounts funds depending on their basis for calculation. During 2023, remuneration rates regarding the required reserves instrument were increased once.

More information on changes and balances of monetary liabilities components and applied Central Bank's required reserve policy are disclosed in the following Notes:

| <b>Note</b>        | <b>Title</b>   |
|--------------------|--|
| <a href="#">17</a> | Banknotes and coins in circulation                         |
| <a href="#">18</a> | Deposits from banks  |
| <a href="#">19</a> | Deposits from the Government and other public institutions |
| <a href="#">22</a> | Net interest income  |

Significantly improved Central Bank's financial performance in 2023 led to an increase in the amount of Central Bank's net foreign assets, as the main indicator of the currency board stability. In addition, the Central Bank has fulfilled the legally prescribed conditions for the payment of part of the net profit for 2023 to The BH Ministry of Finance and Treasury. More information is disclosed in the following Notes:

| <b>Note</b>        | <b>Title</b>                        |
|--------------------|-------------------------------------|
| <a href="#">4</a>  | Currency board arrangement          |
| <a href="#">21</a> | Other liabilities                   |
| <a href="#">32</a> | Allocation of the annual net profit |
| <a href="#">33</a> | Equity                              |

#### 4. CURRENCY BOARD ARRANGEMENT

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

Details of compliance with that rule are as follows:

| In thousands of KM   | 31 December<br>2023 | 31 December<br>2022 |
|--|---------------------|---------------------|
| <b>Official foreign currency reserves</b>  |                     |                     |
| Cash in foreign currencies   | 455,191             | 572,020             |
| Deposits with foreign banks  | 8,326,590           | 8,273,200           |
| Special Drawing Rights with the IMF  | 2,073               | 149                 |
| Debt instruments   | 7,330,551           | 7,060,451           |
| Monetary gold  | 175,459             | 160,040             |
| <b>TOTAL</b>   | <b>16,289,864</b>   | <b>16,065,860</b>   |
| <br>   |                     |                     |
| <b>Liabilities to non-residents</b>  | <b>2,454</b>        | <b>2,583</b>        |
| <br>   |                     |                     |
| <b>Net foreign currency reserves</b><br>(Official foreign currency reserves less liabilities to non-residents) | <b>16,287,410</b>   | <b>16,063,277</b>   |
| <br>   |                     |                     |
| <b>Monetary liabilities</b>  |                     |                     |
| Banknotes and coins in circulation   | 7,565,108           | 7,436,097           |
| Deposits from banks  | 7,083,235           | 7,217,387           |
| Deposits from the Government and other public institutions   | 752,898             | 958,245             |
| <b>TOTAL</b>   | <b>15,401,241</b>   | <b>15,611,729</b>   |
| <br>   |                     |                     |
| <b>NET FOREIGN ASSETS</b><br>(Net foreign currency reserves less monetary liabilities)                         | <b>886,169</b>      | <b>451,548</b>      |

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

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

Net foreign assets are the amounts that guarantee the stability of domestic currency, respectively monetary stability and absorb potential financial risks arising from official currency reserves management. As at 31 December 2023, the financial balance of net foreign assets amounts to KM 886,169 thousand and the stability of domestic currency is completely provided (31 December 2022: KM 451,548 thousand).

#### 4. CURRENCY BOARD ARRANGEMENT (CONTINUED)

More information on financial risks to which the Central Bank has been exposed in foreign currency reserves management is disclosed in [Note 6](#).

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

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

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

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

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

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

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

**5.1. Financial assets measured at fair value**

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

**In thousands of KM**

|   | <b>31 December 2023</b> |                |                |                  |
|---|-------------------------|----------------|----------------|------------------|
|   | <u>Level 1</u>          | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>     |
| <b>Financial assets</b>   |                         |                |                |                  |
| <i>Financial assets measured at fair value through other comprehensive income</i> |                         |                |                |                  |
| Debt instruments  | 6,150,130               | -              | -              | 6,150,130        |
| Monetary gold   | 175,459                 | -              | -              | 175,459          |
| <b>TOTAL</b>  | <b>6,325,589</b>        | <b>-</b>       | <b>-</b>       | <b>6,325,589</b> |

**In thousands of KM**

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

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

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

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

**In thousands of KM**

|  | <b>31 December 2023</b> |                   |
|--|-------------------------|-------------------|
|  | <b>Carrying amount</b>  | <b>Fair value</b> |
| <b>Financial assets</b>  |                         |                   |
| <i>Financial assets measured at amortised cost:</i>  |                         |                   |
| Cash in foreign currencies   | 455,191                 | 455,191           |
| Deposits with foreign banks  | 8,326,590               | 8,326,590         |
| Special Drawing Rights with the IMF  | 2,073                   | 2,073             |
| Debt instruments at amortised cost   | 1,180,421               | 1,084,267         |
| Other financial assets   | 3,539                   | 3,539             |
|  | <i>9,967,814</i>        | <i>9,871,660</i>  |
| <i>Financial assets measured at fair value through other comprehensive income - cost choice:</i> |                         |                   |
| Other investments  | 27,813                  | 27,813            |
|  | <i>27,813</i>           | <i>27,813</i>     |
| <b>Total</b>   | <b>9,995,627</b>        | <b>9,899,473</b>  |
| <b>Financial liabilities</b>   |                         |                   |
| <i>Financial liabilities measured at amortised cost:</i>   |                         |                   |
| Banknotes and coins in circulation   | 7,565,108               | 7,565,108         |
| Deposits from banks  | 7,083,235               | 7,083,235         |
| Deposits from the Government and other public institutions                                       | 752,898                 | 752,898           |
| Other financial liabilities  | 68,423                  | 68,423            |
| <b>Total</b>   | <b>15,469,664</b>       | <b>15,469,664</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

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

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

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

## 6. FINANCIAL RISK MANAGEMENT

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

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

The management of foreign currency reserves and the management of financial risks in the process of managing foreign currency reserves are significantly influenced by movements in the financial markets, primarily movements in the financial market of the euro area, which are affected by a large number of different factors, the most important of which are the measures of the European Central Bank (ECB) and others leading central banks at the global level.

Short-term interest rates in 2023, as well as market yields on short and medium-term government bonds of the euro area countries, have raised significantly compared to their values in the previous year which was largely contributed by the ECB by increasing key interest rates in the euro area.

All three key ECB interest rates were increased in February, March, May, June, August and September 2023, and that was reflected in the movement of interest rates (Euribor) and market yields on Eurobonds in 2023.

An increase in interest rates on deposits and an increase in market yields on euro area government bonds of all remaining maturities was noticeable.

A particularly intensive growth of market yields was recorded at the shorter end of the euro area yield curve (euro area government bonds with shorter remaining maturities), so that from April 2023 inversion of the euro area yield curve was recorded, which means that market yields on euro area government bonds with shorter remaining maturities are higher than market yields on euro area government bonds with longer remaining maturities.

An increase in market yields decreases the fair value of debt instruments of the Central Bank's portfolio, which poses a challenge to the stability of the currency board arrangement.

In order to preserve the stability of the currency board, during 2022 the Central Bank significantly shortened the modified duration of the portfolio and the exposure to interest rate risk.

Certain adjustments were made to credit risk limits and the structure of foreign currency reserves was changed in terms of an increased share of deposits with foreign banks (primarily overnight as well as two-day deposits) and a decrease in the share of debt instruments.

As a result, the further decline in coverage of monetary liabilities was stopped, but there was a certain increase in expected credit losses due to the increase of credit risk.

In 2023, the modified duration of the portfolio and exposure to interest rate risk were slightly increased, taking into account the increase in the coverage of monetary liabilities, while the share of deposits with foreign banks (51%) was not increased, and consequently the credit risk was not increased.



## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk

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

The management of credit 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, since all the risk, which may result from the investments of these funds, are borne contractually by the owners of these funds (see [Notes 36](#) and [37](#)).

#### **Expected credit loss measurement**

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

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

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

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

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

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

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

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

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

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

#### Significant increase in credit risk

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

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

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

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

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

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

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

#### Definition of default

Default criteria are objective evidences of impairment, especially:

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

#### Expected credit loss calculation

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

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

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

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

#### **Forward-looking information incorporation**

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

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

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

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

The Central Bank uses individual and collective approach for impairment.

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

#### **6.1.1. Credit risk exposure**

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

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

**6.1. Credit risk (continued)**

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

In thousands of KM

|   | 2023         |         |         |              | 2022         |         |         |              |
|---|--------------|---------|---------|--------------|--------------|---------|---------|--------------|
|   | Stage 1      | Stage 2 | Stage 3 | Total        | Stage 1      | Stage 2 | Stage 3 | Total        |
| <b>1. Deposits with foreign banks</b>                                       |              |         |         |              |              |         |         |              |
| <b>As at 1 January</b>  | <b>1,850</b> | -       | -       | <b>1,850</b> | <b>913</b>   | -       | -       | <b>913</b>   |
| Increases in expected credit losses   | 13,096       | -       | -       | 13,096       | 10,427       | -       | -       | 10,427       |
| Releases of expected credit losses  | (139)        | -       | -       | (139)        | (335)        | -       | -       | (335)        |
| Releases due to derecognition of term deposits                              | (13,150)     | -       | -       | (13,150)     | (9,155)      | -       | -       | (9,155)      |
| <b>As at 31 December</b>  | <b>1,657</b> | -       | -       | <b>1,657</b> | <b>1,850</b> | -       | -       | <b>1,850</b> |
| <b>2. 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>3. Debt instruments at fair value through other comprehensive income</b> |              |         |         |              |              |         |         |              |
| <b>As at 1 January</b>  | <b>910</b>   | -       | -       | <b>910</b>   | <b>1,786</b> | -       | -       | <b>1,786</b> |
| Increases in expected credit losses   | 619          | -       | -       | 619          | 686          | -       | -       | 686          |
| Releases of expected credit losses  | (28)         | -       | -       | (28)         | (121)        | -       | -       | (121)        |
| Releases due to debt instruments matured                                    | (492)        | -       | -       | (492)        | (804)        | -       | -       | (804)        |
| <i>Net increases / (releases) during the year</i>                           | <i>99</i>    | -       | -       | <i>99</i>    | <i>(239)</i> | -       | -       | <i>(239)</i> |
| Releases due to debt instruments sold                                       | (105)        | -       | -       | (105)        | (637)        | -       | -       | (637)        |
| <b>As at 31 December</b>  | <b>904</b>   | -       | -       | <b>904</b>   | <b>910</b>   | -       | -       | <b>910</b>   |

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

**6.1. Credit risk (continued)**

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

In thousands of KM

|   | 2023         |          |            |              | 2022         |          |            |              |
|---|--------------|----------|------------|--------------|--------------|----------|------------|--------------|
|   | Stage 1      | Stage 2  | Stage 3    | Total        | Stage 1      | Stage 2  | Stage 3    | Total        |
| <b>4. Debt instruments at amortised cost</b>            |              |          |            |              |              |          |            |              |
| <b>As at 1 January</b>                                  | 225          | -        | -          | 225          | -            | -        | -          | -            |
| Increases in expected credit losses                     | 3            | -        | -          | 3            | 234          | -        | -          | 234          |
| Releases of expected credit losses                      | (9)          | -        | -          | (9)          | (9)          | -        | -          | (9)          |
| <b>As at 31 December</b>                                | <b>219</b>   | <b>-</b> | <b>-</b>   | <b>219</b>   | <b>225</b>   | <b>-</b> | <b>-</b>   | <b>225</b>   |
| <b>5. Other financial assets</b>                        |              |          |            |              |              |          |            |              |
| <b>As at 1 January</b>                                  | 6            | -        | 601        | 607          | 6            | -        | 602        | 608          |
| Increases in expected credit losses                     | 7            | -        | -          | 7            | 9            | -        | -          | 9            |
| Releases of expected credit losses                      | (7)          | -        | -          | (7)          | (9)          | -        | (1)        | (10)         |
| <b>As at 31 December</b>                                | <b>6</b>     | <b>-</b> | <b>601</b> | <b>607</b>   | <b>6</b>     | <b>-</b> | <b>601</b> | <b>607</b>   |
| <b>Total opening balance at 1 January</b>               | <b>2,991</b> | <b>-</b> | <b>601</b> | <b>3,592</b> | <b>2,705</b> | <b>-</b> | <b>602</b> | <b>3,307</b> |
| Net (releases of) / increases in expected credit losses | (205)        | -        | -          | (205)        | 286          | -        | (1)        | 285          |
| <b>Total closing balance at 31 December</b>             | <b>2,786</b> | <b>-</b> | <b>601</b> | <b>3,387</b> | <b>2,991</b> | <b>-</b> | <b>601</b> | <b>3,592</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 recognised:

| In thousands of KM<br>Classes of financial instruments                           | 31 December 2023 |          |          |                  | 31 December 2022 |          |          |                  |
|--|------------------|----------|----------|------------------|------------------|----------|----------|------------------|
|  | Stage 1          | Stage 2  | Stage 3  | Total            | Stage 1          | Stage 2  | Stage 3  | Total            |
| <b>Cash in foreign currencies</b>  |                  |          |          |                  |                  |          |          |                  |
| Gross carrying amount  | 455,191          | -        | -        | 455,191          | 572,020          | -        | -        | 572,020          |
| Impairment   | -                | -        | -        | -                | -                | -        | -        | -                |
| <b>Carrying amount</b>   | <b>455,191</b>   | <b>-</b> | <b>-</b> | <b>455,191</b>   | <b>572,020</b>   | <b>-</b> | <b>-</b> | <b>572,020</b>   |
| <b>Deposits with foreign banks</b>   |                  |          |          |                  |                  |          |          |                  |
| Gross carrying amount  | 8,328,247        | -        | -        | 8,328,247        | 8,275,050        | -        | -        | 8,275,050        |
| Impairment   | (1,657)          | -        | -        | (1,657)          | (1,850)          | -        | -        | (1,850)          |
| <b>Carrying amount</b>   | <b>8,326,590</b> | <b>-</b> | <b>-</b> | <b>8,326,590</b> | <b>8,273,200</b> | <b>-</b> | <b>-</b> | <b>8,273,200</b> |
| <b>Special Drawing Rights with the IMF</b>                                       |                  |          |          |                  |                  |          |          |                  |
| Gross carrying amount  | 2,073            | -        | -        | 2,073            | 149              | -        | -        | 149              |
| Impairment   | -                | -        | -        | -                | -                | -        | -        | -                |
| <b>Carrying amount</b>   | <b>2,073</b>     | <b>-</b> | <b>-</b> | <b>2,073</b>     | <b>149</b>       | <b>-</b> | <b>-</b> | <b>149</b>       |
| <b>Debt instruments at fair value through other comprehensive income</b>         |                  |          |          |                  |                  |          |          |                  |
| Gross carrying amount  | 6,150,130        | -        | -        | 6,150,130        | 5,887,589        | -        | -        | 5,887,589        |
| Provisions for expected credit losses (recognised in other comprehensive income) | 904              | -        | -        | 904              | 910              | -        | -        | 910              |
| <b>Gross carrying amount</b>   | <b>6,150,130</b> | <b>-</b> | <b>-</b> | <b>6,150,130</b> | <b>5,887,589</b> | <b>-</b> | <b>-</b> | <b>5,887,589</b> |

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

**6.1. Credit risk (continued)**

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

| In thousands of KM<br>Classes of financial instruments | 31 December 2023 |          |          |                  | 31 December 2022 |          |          |                  |
|--|------------------|----------|----------|------------------|------------------|----------|----------|------------------|
|  | Stage 1          | Stage 2  | Stage 3  | Total            | Stage 1          | Stage 2  | Stage 3  | Total            |
| <b>Debt instruments at amortised cost</b>              |                  |          |          |                  |                  |          |          |                  |
| Gross carrying amount                                  | 1,180,640        | -        | -        | 1,180,640        | 1,173,087        | -        | -        | 1,173,087        |
| Impairment   | (219)            | -        | -        | (219)            | (225)            | -        | -        | (225)            |
| <b>Carrying amount</b>                                 | <b>1,180,421</b> | <b>-</b> | <b>-</b> | <b>1,180,421</b> | <b>1,172,862</b> | <b>-</b> | <b>-</b> | <b>1,172,862</b> |
| <b>Other financial assets</b>                          |                  |          |          |                  |                  |          |          |                  |
| Gross carrying amount                                  | 3,545            | -        | 601      | 4,146            | 4,288            | -        | 601      | 4,889            |
| Impairment   | (6)              | -        | (601)    | (607)            | (6)              | -        | (601)    | (607)            |
| <b>Carrying amount</b>                                 | <b>3,539</b>     | <b>-</b> | <b>-</b> | <b>3,539</b>     | <b>4,282</b>     | <b>-</b> | <b>-</b> | <b>4,282</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**

| <b>In thousands of KM</b> | <b>31 December<br/>2023</b> | <b>31 December<br/>2022</b> |
|---------------------------|-----------------------------|-----------------------------|
| <b>Carrying amounts</b>   |                             |                             |
| Monetary gold             | 175,459                     | 160,040                     |
| Other investments         | 27,813                      | 27,813                      |
| <b>TOTAL</b>              | <b>203,272</b>              | <b>187,853</b>              |

The Central Bank does not hold any collateral or other credit enhancements for the credit risk coverage. As at 31 December 2023 the Central Bank does not have any assets that are past due but unpaid, and has impaired assets in the amount of KM 601 thousand (31 December 2022: The Central Bank did not have any assets that are past due but unpaid, and had impaired assets in the amount of KM 601 thousand).

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

**6.1. Credit risk (continued)**

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

**Concentration per credit rating**

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

**In thousands of KM**

**31 December 2023**

| <b>Credit rating</b> | <b>Cash in foreign currencies</b> | <b>Deposits with foreign banks</b> | <b>Special Drawing Rights with the IMF</b> | <b>Debt instruments at fair value through other comprehensive income</b> | <b>Monetary gold</b> | <b>Debt instruments at amortised cost</b> | <b>Other financial assets</b> | <b>Other investments</b> | <b>Total</b>      |
|----------------------|-----------------------------------|------------------------------------|--|--|----------------------|---|-------------------------------|--------------------------|-------------------|
| AAA                  | -                                 | 3,914,210                          | -  | 2,015,799  | -                    | 141,871                                   | -                             | -                        | 6,071,880         |
| AA+                  | -                                 | 431                                | -  | 653,467  | -                    | 283,696                                   | -                             | -                        | 937,594           |
| AA                   | -                                 | 836,324                            | -  | 1,578,434  | -                    | 221,715                                   | -                             | -                        | 2,636,473         |
| AA-                  | -                                 | 806,995                            | -  | 723,414  | -                    | 146,741                                   | -                             | -                        | 1,677,150         |
| A+                   | -                                 | -                                  | -  | -  | -                    | -   | -                             | -                        | -                 |
| A                    | -                                 | 2,224,953                          | -  | 37,616   | -                    | 41,528                                    | -                             | -                        | 2,304,097         |
| A-                   | -                                 | -                                  | -  | 683,479  | -                    | 191,383                                   | -                             | -                        | 874,862           |
| II <sup>1</sup>      | -                                 | 545,334                            | 2,073                                      | -  | 175,459              | -   | -                             | 27,813                   | 750,679           |
| BBB+                 | -                                 | -                                  | -  | -  | -                    | -   | -                             | -                        | -                 |
| BBB                  | -                                 | -                                  | -  | 457,921  | -                    | 153,706                                   | -                             | -                        | 611,627           |
| BBB-                 | -                                 | -                                  | -  | -  | -                    | -   | -                             | -                        | -                 |
| Unrated              | 455,191                           | -                                  | -  | -  | -                    | -   | 4,146                         | -                        | 459,337           |
| <b>Total</b>         | <b>455,191</b>                    | <b>8,328,247</b>                   | <b>2,073</b>                               | <b>6,150,130</b>   | <b>175,459</b>       | <b>1,180,640</b>                          | <b>4,146</b>                  | <b>27,813</b>            | <b>16,323,699</b> |
| Impairment           | -                                 | (1,657)                            | -  | -  | -                    | (219)                                     | (607)                         | -                        | (2,483)           |
| <b>TOTAL</b>         | <b>455,191</b>                    | <b>8,326,590</b>                   | <b>2,073</b>                               | <b>6,150,130<sup>2</sup></b>   | <b>175,459</b>       | <b>1,180,421</b>                          | <b>3,539</b>                  | <b>27,813</b>            | <b>16,321,216</b> |

<sup>1</sup> International institutions

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

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

**6.1. Credit risk (continued)**

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

In thousands of KM

**31 December 2022**

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

<sup>3</sup> International institutions

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.1. Credit risk (continued)

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

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

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

#### 31 December 2023

| In thousands of KM  | EU countries      | Non-EU member countries | Bosnia and Herzegovina | Total             |
|---|-------------------|-------------------------|------------------------|-------------------|
| Cash in foreign currencies  | -                 | -                       | 455,191                | 455,191           |
| Deposits with foreign banks                                       | 4,967,125         | 3,361,122               | -                      | 8,328,247         |
| Special Drawing Rights with the IMF                               | -                 | 2,073                   | -                      | 2,073             |
| Debt instruments at fair value through other comprehensive income | 6,150,130         | -                       | -                      | 6,150,130         |
| Monetary gold   | -                 | 175,459                 | -                      | 175,459           |
| Debt instruments at amortised cost                                | 1,180,640         | -                       | -                      | 1,180,640         |
| Other financial assets  | -                 | -                       | 4,146                  | 4,146             |
| Other investments   | 10                | 27,803                  | -                      | 27,813            |
| <b>Total</b>  | <b>12,297,905</b> | <b>3,566,457</b>        | <b>459,337</b>         | <b>16,323,699</b> |
|   |                   |                         | Impairment             | (2,483)           |
|   |                   |                         | <b>TOTAL</b>           | <b>16,321,216</b> |

#### 31 December 2022

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

Interest-bearing components of foreign currency reserves, analysed by the country where the funds are invested, are disclosed in [Notes 8](#), [10](#) and [12](#).

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk

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

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

For calculating VaR value of foreign currency reserves portfolio of the Central Bank, all positions which are exposed to market risks, i.e., foreign exchange risk, interest rate risk and price risk, in foreign currency reserves portfolio are considered. As at 31 December 2023, 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 29,493 thousand (2022: KM 44,976 thousand), which represents 0.18% of the total financial assets (2022: 0.28% of the total financial assets).

The Value at Risk has been decreased primarily due to reduced volatility of interest rates, i.e., the yields on debt instruments in the portfolio of foreign currency reserves of the Central Bank.

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

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

| <b>In thousands of KM</b>                    | <b>31 December 2023</b> | <b>31 December 2022</b> |
|--|-------------------------|-------------------------|
| Interest rate risk                           | 21,641                  | 37,044                  |
| Risk of change in EUR price of monetary gold | 7,477                   | 7,873                   |
| Foreign exchange risk                        | 375                     | 59                      |
| <b>Total VaR</b>                             | <b>29,493</b>           | <b>44,976</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 through setting the quantitative limits for exposure to foreign exchange risk.

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

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

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

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

The following tables present foreign currency position as at 31 December 2023 and 31 December 2022:

#### 31 December 2023

| In thousands of KM  | EUR               | USD          | Other<br>foreign<br>currencies | KM                  | Total             |
|---|-------------------|--------------|--------------------------------|---------------------|-------------------|
| Cash in foreign currencies  | 455,191           | -            | -                              | -                   | 455,191           |
| Deposits with foreign banks                                       | 8,313,378         | 6,829        | 6,383                          | -                   | 8,326,590         |
| Special Drawing Rights with the IMF                               | -                 | -            | 2,073                          | -                   | 2,073             |
| Debt instruments at fair value through other comprehensive income | 6,150,130         | -            | -                              | -                   | 6,150,130         |
| Monetary gold   | 175,459           | -            | -                              | -                   | 175,459           |
| Debt instruments at amortised cost                                | 1,180,421         | -            | -                              | -                   | 1,180,421         |
| Other financial assets  | 63                | -            | -                              | 3,476               | 3,539             |
| Other investments   | 10                | -            | -                              | 27,803              | 27,813            |
| <b>Total financial assets</b>                                     | <b>16,274,652</b> | <b>6,829</b> | <b>8,456</b>                   | <b>31,279</b>       | <b>16,321,216</b> |
| Banknotes and coins in circulation                                | -                 | -            | -                              | 7,565,108           | 7,565,108         |
| Deposits from banks   | -                 | -            | -                              | 7,083,235           | 7,083,235         |
| Deposits from the Government and other public institutions        | -                 | -            | -                              | 752,898             | 752,898           |
| Other financial liabilities                                       | 561               | 23           | 1                              | 67,838              | 68,423            |
| <b>Total financial liabilities</b>                                | <b>561</b>        | <b>23</b>    | <b>1</b>                       | <b>15,469,079</b>   | <b>15,469,664</b> |
| <b>NET FOREIGN EXCHANGE POSITION</b>                              | <b>16,274,091</b> | <b>6,806</b> | <b>8,455</b>                   | <b>(15,437,800)</b> | <b>851,552</b>    |

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

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

31 December 2022

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

The interest rate risk is managed by defining a target modified duration of invested foreign currency reserves, monitoring the value at risk, and selecting an appropriate market index which, with the necessary adjustments, represents the reference portfolio (benchmark) and prescribing the maximum amount of permitted deviation of the portfolio's return from the return of the corresponding benchmark (tracking error).

The target modified duration is shortened or extended by the appropriate regulations of the Central Bank, depending on the current structure of the portfolio of foreign currency reserves, current market conditions and available expectations and forecasts, and in accordance with the strategic determination that the maximum allowed term of investing debt instruments with fixed income is ten years, and the maximum allowed investment term of deposits with foreign banks is one year.

According to the regulations effective as at reporting dates, the targeted modified duration of the total portfolio of foreign currency reserves amounts to 1.10 years, with +/- 0.40 year deviations allowed, while the target modified duration of the portfolio of debt instruments at fair value through other comprehensive income with the remaining term to maturity longer than one-year amounts to 2.00 years with +/- 0.30 year deviations allowed.

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

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

The Central Bank uses a modified duration of debt instruments at fair value through other comprehensive income as a key measure of interest rate risk exposure. The modified duration is a measure of the price sensitivity of 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 the fourth quarter of 2023, modified duration of debt instruments at fair value through other comprehensive income was slightly extended and amounts to 0.97 as at 31 December 2023 (31 December 2022: 0.92) given that, by the end of June 2023, the impact of interest rate risk has been largely mitigated and the stability of the currency board has been improved.

The following tables present the Central Bank's exposure to interest rate risk as at reporting dates by the financial instrument's carrying amount, categorized (classified into maturity classes) under criteria of re-determining interest rate dates in accordance with contractual arrangements (contractual cash flows, such as coupon payments) or the maturity date of the instruments. Accordingly, the criteria for classifying instruments into maturity classes for coupon debt instruments at fair value through other comprehensive income is the maturity date of the first subsequent coupon payment, while discount debt instruments at fair value through other comprehensive income, and debt instruments at amortised cost and deposits with foreign banks are classified into maturity classes according to the maturity date of the instrument:

| 31 December 2023  |                  |                  |                |                | Non-               |                   |
|---|------------------|------------------|----------------|----------------|--------------------|-------------------|
| In thousands of KM  | Up to 3          | From 3           | From 1         | Over 3         | interest           | Total             |
|   | months           | to 12            | to 3 years     | Years          | bearing            |                   |
| Cash in foreign currencies  | -                | -                | -              | -              | 455,191            | 455,191           |
| Deposits with foreign banks                                       | 7,465,786        | 824,722          | -              | -              | 36,082             | 8,326,590         |
| Special Drawing Rights with the IMF                               | 2,053            | -                | -              | -              | 20                 | 2,073             |
| Debt instruments at fair value through other comprehensive income | 1,321,372        | 4,827,264        | -              | -              | 1,494              | 6,150,130         |
| Monetary gold   | -                | -                | -              | -              | 175,459            | 175,459           |
| Debt instruments at amortised cost                                | -                | 58,271           | 153,916        | 965,658        | 2,576              | 1,180,421         |
| Other financial assets  | -                | -                | -              | -              | 3,539              | 3,539             |
| Other investments   | -                | -                | -              | -              | 27,813             | 27,813            |
| <b>Total financial assets</b>                                     | <b>8,789,211</b> | <b>5,710,257</b> | <b>153,916</b> | <b>965,658</b> | <b>702,174</b>     | <b>16,321,216</b> |
| Banknotes and coins in circulation                                | -                | -                | -              | -              | 7,565,108          | 7,565,108         |
| Deposits from banks   | 7,082,560        | -                | -              | -              | 675                | 7,083,235         |
| Deposits from the Government and other public institutions        | -                | -                | -              | -              | 752,898            | 752,898           |
| Other financial liabilities                                       | -                | -                | -              | -              | 68,423             | 68,423            |
| <b>Total financial liabilities</b>                                | <b>7,082,560</b> | <b>-</b>         | <b>-</b>       | <b>-</b>       | <b>8,387,104</b>   | <b>15,469,664</b> |
| <b>INTEREST RATE GAP</b>  | <b>1,706,651</b> | <b>5,710,257</b> | <b>153,916</b> | <b>965,658</b> | <b>(7,684,930)</b> | <b>851,552</b>    |



## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

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

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

#### *Sensitivity analysis based on scenarios of predefined changes in market yields*

In order to quantify the effects of exposure of foreign currency reserves to interest rate risk, as an addition to the VaR analysis, a stress test (sensitivity analysis) is used, which, based on the modified duration of the portfolio of debt instruments, predicts the possible effect of changes in interest rates (market yields) on the financial assets of the Central Bank.

For the Central Bank, the most important scenario is a possible unexpected growth in interest rates (fall in market prices of debt instruments), so the impact on financial assets is calculated in the event of an increase in interest rates (upward shift of the yield curve on euro bonds) according to the assumed scenario (predefined increases).

Interest rate risk sensitivity analysis based on scenarios of predefined changes in market yields (interest rates) expressed in basis points (bp) shows the effects of changes in the level of the bond yield curve in the euro area (the yield curve on euro bonds) on the value of the bank's financial assets as at reporting dates.

The effects of a change in the level of the euro yield curve represent a fall in the market values of debt instruments for predefined increases in interest rates by 1, 50, 100 or 200 basis points. This analysis assumes that all other variables are unchanged at observed reporting dates.

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.2. Market risk (continued)

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

Sensitivity analysis - scenarios of assumed changes in market yields at 31 December 31 2023.

| Change in market yields  | +/- 1 bp  | +/- 50 bp       | +/- 100 bp      | +/- 200 bp        |
|--|-----------|-----------------|-----------------|-------------------|
| <b>Change of the financial assets value (in thousands of KM)</b> | (595)/595 | (29,739)/29,739 | (59,478)/59,478 | (118,957)/118,957 |

Sensitivity analysis - scenarios of assumed changes in market yields at 31 December 2022.

| Change in market yields  | +/- 1 bp  | +/- 50 bp       | +/- 100 bp      | +/- 200 bp        |
|--|-----------|-----------------|-----------------|-------------------|
| <b>Change of the financial assets value (in thousands of KM)</b> | (543)/543 | (27,130)/27,130 | (54,260)/54,260 | (108,520)/108,520 |

In the case of the scenario of an upward shift of the yield curve on euro bonds by 1 b. (0.01%), the financial assets of the Central Bank would be decreased by KM 595 thousand as at 31 December 2023 (As at 31 December 2022: KM 543 thousand).

In the case of the scenario of a downward shift of the yield curve on euro bonds by 1 bp (0.01%), the financial assets of the Central Bank would be higher by KM 595 thousand as at 31 December 31 2023 (As at 31 December 2022: KM 543 thousand).

The effects on the value of financial assets in the case of a scenario of larger shifts (+/- 50 bp, +/- 100 bp, or +/-200 bp) of the yield curve on euro bonds, would be proportional to the effects of the change in the value of financial assets caused by the mentioned shifts in the yield curve for +/- 1 bp (+/- 0.01%).

### 6.3. Liquidity risk

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

The liquidity of the foreign currency reserves portfolio is provided by holding a sufficient amount of liquid instruments in the portfolio.

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

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

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

## 6. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 6.3. Liquidity risk (continued)

Maturity analysis

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

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

| <b>31 December 2023</b>                                    |                           |                                    |                              |                         |   |                   |
|--|---------------------------|------------------------------------|------------------------------|-------------------------|---|-------------------|
| <b>In thousands of KM</b>                                  | <b>Up to 3<br/>months</b> | <b>From 3<br/>to 12<br/>months</b> | <b>From 1 to<br/>3 years</b> | <b>Over 3<br/>years</b> | <b>Without<br/>specified<br/>maturity</b> | <b>Total</b>      |
| Banknotes and coins in circulation                         | 7,565,108                 | -                                  | -                            | -                       | -   | 7,565,108         |
| Deposits from banks  | 7,083,235                 | -                                  | -                            | -                       | -   | 7,083,235         |
| Deposits from the Government and other public institutions | 752,898                   | -                                  | -                            | -                       | -   | 752,898           |
| Other financial liabilities                                | 4,104                     | 64,319                             | -                            | -                       | -   | 68,423            |
| <b>TOTAL FINANCIAL LIABILITIES</b>                         | <b>15,405,345</b>         | <b>64,319</b>                      | <b>-</b>                     | <b>-</b>                | <b>-</b>                                  | <b>15,469,664</b> |

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

The interest-bearing components of foreign currency reserves, analysed by their remaining contractual maturities in relation to the reporting dates, are disclosed in [Notes 8](#), [10](#) and [12](#).

## 7. CASH IN FOREIGN CURRENCIES

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

| In thousands of KM          | 31 December<br>2023 | 31 December<br>2022 |
|-----------------------------|---------------------|---------------------|
| Cash in foreign currencies: |                     |                     |
| EUR                         | 455,191             | 571,982             |
| USD                         | -                   | 21                  |
| GBP                         | -                   | 17                  |
| <b>TOTAL</b>                | <b>455,191</b>      | <b>572,020</b>      |

For the purpose of cash flow reporting, cash in foreign currencies is included in cash and cash equivalents ([Note 34](#)).

## 8. DEPOSITS WITH FOREIGN BANKS

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

For the purpose of cash flow reporting, foreign currency demand deposits and foreign currency deposits with maturity up to three months or less from the date of acquisition are included in cash and cash equivalents. The following table presents the analysis of deposits with foreign banks for the purpose of cash flow reporting:

| In thousands of KM  | 31 December<br>2023 | 31 December<br>2022 |
|---|---------------------|---------------------|
| Demand deposits   | 1,811,641           | 1,628,560           |
| Term deposits with maturity up to three months or less from the date of acquisition | 4,744,565           | 5,646,221           |
| Impairment  | (1,486)             | (1,752)             |
| <b>Included in cash and cash equivalents (<a href="#">Note 34</a>)</b>              | <b>6,554,720</b>    | <b>7,273,029</b>    |
| Term deposits with maturity over three months from the date of acquisition          | 1,772,041           | 1,000,269           |
| Impairment  | (171)               | (99)                |
| <b>Total</b>  | <b>1,771,870</b>    | <b>1,000,171</b>    |
| <b>TOTAL</b>  | <b>8,326,590</b>    | <b>8,273,200</b>    |

## 8. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

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

| In thousands of KM | 31 December<br>2023 | 31 December<br>2022 |
|--------------------|---------------------|---------------------|
| Term deposits:     |                     |                     |
| EUR                | 6,512,976           | 6,646,490           |
| USD                | 3,630               | -                   |
|                    | <b>6,516,606</b>    | <b>6,646,490</b>    |
| Impairment         | (1,520)             | (1,734)             |
| <b>Total</b>       | <b>6,515,086</b>    | <b>6,644,756</b>    |
| Demand deposits:   |                     |                     |
| EUR                | 1,802,057           | 1,621,860           |
| CHF                | 4,325               | 2,306               |
| USD                | 3,199               | 2,351               |
| GBP                | 2,060               | 2,043               |
|                    | <b>1,811,641</b>    | <b>1,628,560</b>    |
| Impairment         | (137)               | (116)               |
| <b>Total</b>       | <b>1,811,504</b>    | <b>1,628,444</b>    |
| <b>TOTAL</b>       | <b>8,326,590</b>    | <b>8,273,200</b>    |

The average interest rates on term deposits denominated in EUR currency range from 1.95% to 4.12% p.a. in 2023 (2022: Ended with July, the average interest rates on term deposits denominated in EUR currency were negative and ranged from 0.59% to 0.24% p.a.; from July 2022, the average interest rates on term deposits were positive and ranged from 0.02% to 2.11% p.a.).

The average interest rates on demand deposits denominated in EUR currency range from 0.00% to 4.00% p.a. in 2023 (2022: The average negative interest rates on demand deposits denominated in EUR currency, ended with August 2022, ranged from 0.90% to 0.21% p.a.; from August 2022, the average positive interest rates ranged from 0.00% to 1.68% p.a.).

Deposits with foreign banks include net accrued interest in the amount KM 36,082 thousand as at 31 December 2023 (31 December 2022: Included net accrued interest in the amount KM 8,503 thousand).

The average effective yield rate on deposits with foreign banks amounts to 3.19% for 2023 (2022: The average effective yield rate amounted to 0.21%).

## 8. DEPOSITS WITH FOREIGN BANKS (CONTINUED)

The following table presents term deposits with foreign banks, analysed by the remaining contractual maturity in relation to reporting dates:

| In thousands of KM         | 31 December<br>2023 | 31 December<br>2022 |
|----------------------------|---------------------|---------------------|
| Up to one month            | 3,983,673           | 3,980,765           |
| From one to two months     | 960,845             | 1,469,432           |
| From two to three months   | 738,995             | 764,312             |
| From three to four months  | 298,167             | 431,981             |
| From four to twelve months | 534,926             | -                   |
| <b>Total</b>               | <b>6,516,606</b>    | <b>6,646,490</b>    |
| Impairment                 | (1,520)             | (1,734)             |
| <b>TOTAL</b>               | <b>6,515,086</b>    | <b>6,644,756</b>    |

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

| In thousands of KM                          | 31 December<br>2023 | 31 December<br>2022 |
|---|---------------------|---------------------|
| <b>Foreign commercial banks</b>             |                     |                     |
| Term deposits                               | 2,739,866           | 3,104,888           |
| Overnight deposits                          | 1,199,902           | 543,721             |
| Demand deposits                             | 4,506               | 3,481               |
|   | <b>3,944,274</b>    | <b>3,652,090</b>    |
| <b>Foreign central banks</b>                |                     |                     |
| Term deposits                               | 2,038,953           | 2,997,881           |
| Overnight deposits                          | -                   | -                   |
| Demand deposits                             | 1,799,686           | 1,621,296           |
|   | <b>3,838,639</b>    | <b>4,619,177</b>    |
| <b>International financial institutions</b> |                     |                     |
| Term deposits                               | 537,885             | -                   |
| Overnight deposits                          | -                   | -                   |
| Demand deposits                             | 7,449               | 3,783               |
|   | <b>545,334</b>      | <b>3,783</b>        |
| <b>Total</b>                                | <b>8,328,247</b>    | <b>8,275,050</b>    |
| Impairment (Note 6.1.1.)                    | (1,657)             | (1,850)             |
| <b>TOTAL</b>                                | <b>8,326,590</b>    | <b>8,273,200</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](#).

**8. DEPOSITS WITH FOREIGN BANKS (CONTINUED)**

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

| <b>In thousands of KM</b>    | <b>31 December<br/>2023</b> | <b>31 December<br/>2022</b> |
|------------------------------|-----------------------------|-----------------------------|
| <i>Switzerland</i>           |                             |                             |
| Term deposits                | 2,257,205                   | 1,574,653                   |
| Demand deposits              | 7,449                       | 3,783                       |
|                              | <b>2,264,654</b>            | <b>1,578,436</b>            |
| <i>France</i>                |                             |                             |
| Term deposits                | 1,682,242                   | 1,260,994                   |
| Demand deposits              | 278,492                     | 78,346                      |
|                              | <b>1,960,734</b>            | <b>1,339,340</b>            |
| <i>Luxembourg</i>            |                             |                             |
| Term deposits                | 1,481,122                   | 1,235,348                   |
| Demand deposits              | 374,134                     | 392,457                     |
|                              | <b>1,855,256</b>            | <b>1,627,805</b>            |
| <i>Great Britain</i>         |                             |                             |
| Term deposits                | 1,096,037                   | 1,185,316                   |
| Demand deposits              | -                           | -                           |
|                              | <b>1,096,037</b>            | <b>1,185,316</b>            |
| <i>Germany</i>               |                             |                             |
| Term deposits                | -                           | -                           |
| Demand deposits              | 1,052,667                   | 1,055,215                   |
|                              | <b>1,052,667</b>            | <b>1,055,215</b>            |
| <i>Netherlands</i>           |                             |                             |
| Term deposits                | -                           | -                           |
| Demand deposits              | 98,468                      | 98,100                      |
|                              | <b>98,468</b>               | <b>98,100</b>               |
| <i>USA</i>                   |                             |                             |
| Term deposits                | -                           | -                           |
| Demand deposits              | 431                         | 659                         |
|                              | <b>431</b>                  | <b>659</b>                  |
| <i>Slovakia</i>              |                             |                             |
| Term deposits                | -                           | 1,390,179                   |
| Demand deposits              | -                           | -                           |
|                              | <b>-</b>                    | <b>1,390,179</b>            |
| <b>Total term deposits</b>   | <b>6,516,606</b>            | <b>6,646,490</b>            |
| <b>Total demand deposits</b> | <b>1,811,641</b>            | <b>1,628,560</b>            |
| Impairment                   | (1,657)                     | (1,850)                     |
| <b>TOTAL</b>                 | <b>8,326,590</b>            | <b>8,273,200</b>            |

## 9. SPECIAL DRAWING RIGHTS WITH THE IMF

| In thousands of KM                             | 31 December<br>2023 | 31 December<br>2022 |
|--|---------------------|---------------------|
| Account of Special Drawing Rights with the IMF | 2,053               | 147                 |
| Accrued interest                               | 20                  | 2                   |
| <b>Total</b>                                   | <b>2,073</b>        | <b>149</b>          |
| Impairment                                     | -                   | -                   |
| <b>TOTAL</b>                                   | <b>2,073</b>        | <b>149</b>          |

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

| In thousands of KM                                       | For the period |              |
|--|----------------|--------------|
|  | 2023           | 2022         |
| <b>As at 1 January</b>                                   | <b>149</b>     | <b>1,881</b> |
| Cash inflows on the account of Special Drawing Rights    | 75,937         | 22,772       |
| Cash outflows  | (73,705)       | (24,445)     |
| Interest income on the account of Special Drawing Rights | 189            | 27           |
| Collection of accrued interest                           | (171)          | (25)         |
| Net foreign exchange (losses)                            | (326)          | (61)         |
| <b>As at 31 December</b>                                 | <b>2,073</b>   | <b>149</b>   |

For the purpose of cash flow reporting, Special Drawing Rights with the IMF are included in cash and cash equivalents ([Note 34](#)).

## 10. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Debt instruments at fair value through other comprehensive income represent Central Bank's foreign currency reserve funds invested in liquid sovereign government bonds of euro area countries. The portfolio of these debt instruments includes short-term and long-term government bonds with a fixed interest rate. Debt instruments at fair value through other comprehensive income are denominated in EUR currency.

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

| In thousands of KM                              | 31 December<br>2023 | 31 December<br>2022 |
|---|---------------------|---------------------|
| Coupon debt instruments                         | 4,476,401           | 4,656,303           |
| Accrued interest on coupon debt instruments     | 29,919              | 31,978              |
|   | <b>4,506,320</b>    | <b>4,688,281</b>    |
| Discount debt instruments                       | 1,672,235           | 1,212,615           |
| Accrued (discount) on discount debt instruments | (28,425)            | (13,307)            |
|   | <b>1,643,810</b>    | <b>1,199,308</b>    |
| <b>TOTAL</b>                                    | <b>6,150,130</b>    | <b>5,887,589</b>    |

As at 31 December 2023, provisions for expected credit losses for debt instruments, recognised in other comprehensive income, amount to KM 904 thousand (31 December 2022: KM 910 thousand).



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

During 2023, the net increases in provisions for expected credit losses recognised in profit or loss, amounts to KM 99 thousand (2022: Net releases of KM 239 thousand) For more information see [Notes 6.1.1.](#) and [27.](#)

The average effective yield rate on debt instruments at fair value through other comprehensive income amounts to 0.75% for 2023 (2022: The average negative effective yield rate amounted to 0.74%).

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

|                    | 31 December 2023   |               | 31 December 2022   |               |
|--------------------|--------------------|---------------|--------------------|---------------|
|                    | In thousands of KM | %             | In thousands of KM | %             |
| <i>Germany</i>     | 1,842,371          | 29.96         | 1,698,303          | 28.84         |
| <i>France</i>      | 1,578,434          | 25.67         | 1,244,391          | 21.13         |
| <i>Spain</i>       | 683,479            | 11.11         | 795,710            | 13.52         |
| <i>Belgium</i>     | 683,296            | 11.11         | 483,940            | 8.22          |
| <i>Italy</i>       | 457,921            | 7.45          | 487,539            | 8.28          |
| <i>Finland</i>     | 349,641            | 5.69          | 231,787            | 3.94          |
| <i>Austria</i>     | 303,826            | 4.94          | 461,229            | 7.83          |
| <i>Netherlands</i> | 173,428            | 2.82          | 444,257            | 7.55          |
| <i>Ireland</i>     | 40,118             | 0.65          | 40,433             | 0.69          |
| <i>Slovakia</i>    | 37,616             | 0.60          | -                  | -             |
| <b>TOTAL</b>       | <b>6,150,130</b>   | <b>100.00</b> | <b>5,887,589</b>   | <b>100.00</b> |

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

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

| In thousands of KM  | 2023             | 2022              |
|---|------------------|-------------------|
| <b>As at 1 January</b>  | <b>5,887,589</b> | <b>11,629,592</b> |
| Purchases during the year   | 4,741,235        | 4,706,082         |
| Sales during the year   | (987,892)        | (4,632,890)       |
| Interest income recognised during the year ( <a href="#">Note 22</a> )                    | 69,366           | 21,900            |
| Effects of negative interest rates recognised during the year ( <a href="#">Note 22</a> ) | (4,427)          | (26,880)          |
| Maturities of debt instruments  | (3,640,509)      | (5,365,116)       |
| Maturities of coupon  | (29,186)         | (79,955)          |
| Net unrealised change in fair value during the year                                       | 113,948          | (365,150)         |
| Transaction costs   | 6                | 6                 |
| <b>As at 31 December</b>  | <b>6,150,130</b> | <b>5,887,589</b>  |

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

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

| <b>In thousands of KM</b>   | <b>31 December<br/>2023</b> | <b>31 December<br/>2022</b> |
|-----------------------------|-----------------------------|-----------------------------|
| Up to three months          | 716,892                     | 514,934                     |
| From three to twelve months | 2,943,406                   | 3,120,538                   |
| From one to three years     | 2,414,490                   | 2,180,052                   |
| Over three years            | 75,342                      | 72,065                      |
| <b>TOTAL</b>                | <b>6,150,130</b>            | <b>5,887,589</b>            |

**11. MONETARY GOLD**

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

| <b>As at</b>     | <b>Quantity of<br/>ounces</b> | <b>Price per ounce in<br/>KM</b> | <b>Fair value of monetary gold<br/>as at in thousands of KM</b> |
|------------------|-------------------------------|----------------------------------|---|
| 31 December 2023 | 48,000                        | 3,655.40                         | 175,459   |
| 31 December 2022 | 48,000                        | 3,334.17                         | 160,040   |

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

| <b>In thousands of KM</b>                           | <b>2023</b>    | <b>2022</b>    |
|---|----------------|----------------|
| <b>As at 1 January</b>                              | <b>160,040</b> | <b>301,987</b> |
| Net unrealised change in fair value during the year | 15,419         | 19,996         |
| Sales during the year                               | -              | (161,943)      |
| <b>As at 31 December</b>                            | <b>175,459</b> | <b>160,040</b> |

## 12. DEBT INSTRUMENTS AT AMORTISED COST

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

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

| In thousands of KM                          | 31 December<br>2023 | 31 December<br>2022 |
|---|---------------------|---------------------|
| Coupon debt instruments                     | 1,178,064           | 1,170,693           |
| Accrued interest on coupon debt instruments | 2,576               | 2,394               |
| <b>Total</b>                                | <b>1,180,640</b>    | <b>1,173,087</b>    |
| Impairment                                  | (219)               | (225)               |
| <b>TOTAL</b>                                | <b>1,180,421</b>    | <b>1,172,862</b>    |

The average effective yield rate on debt instruments at amortised cost amounts to 1.01% for 2023 (2022:0.98%).

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

|                    | 31 December 2023   |               | 31 December 2022   |               |
|--------------------|--------------------|---------------|--------------------|---------------|
|                    | In thousands of KM | %             | In thousands of KM | %             |
| <i>France</i>      | 221,715            | 18.78         | 219,864            | 18.74         |
| <i>Spain</i>       | 191,383            | 16.21         | 190,370            | 16.23         |
| <i>Austria</i>     | 190,662            | 16.15         | 189,737            | 16.17         |
| <i>Italy</i>       | 153,706            | 13.02         | 152,343            | 12.99         |
| <i>Finland</i>     | 93,034             | 7.88          | 92,434             | 7.88          |
| <i>Belgium</i>     | 91,810             | 7.78          | 91,070             | 7.76          |
| <i>Germany</i>     | 58,887             | 4.99          | 58,883             | 5.02          |
| <i>Netherlands</i> | 55,710             | 4.72          | 55,142             | 4.70          |
| <i>Ireland</i>     | 54,933             | 4.65          | 54,470             | 4.64          |
| <i>Slovakia</i>    | 41,528             | 3.52          | 41,776             | 3.56          |
| <i>Luxembourg</i>  | 27,272             | 2.30          | 26,998             | 2.31          |
| <b>Total</b>       | <b>1,180,640</b>   | <b>100.00</b> | <b>1,173,087</b>   | <b>100.00</b> |
| Impairment         | (219)              |               | (225)              |               |
| <b>TOTAL</b>       | <b>1,180,421</b>   |               | <b>1,172,862</b>   |               |

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

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

## 12. DEBT INSTRUMENTS AT AMORTISED COST (CONTINUED)

| In thousands of KM   | 2023             | 2022             |
|--|------------------|------------------|
| <b>As at 1 January</b>   | <b>1,172,862</b> | -                |
| Purchases during the year  | -                | 1,166,137        |
| Interest income recognised during the year ( <a href="#">Note 22</a> ) | 11,912           | 8,669            |
| Maturities of coupons  | (4,359)          | (1,721)          |
| Net impairment during the year   | 6                | (225)            |
| Transaction costs  | -                | 2                |
| <b>As at 31 December</b>   | <b>1,180,421</b> | <b>1,172,862</b> |

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

| In thousands of KM  | 31 December<br>2023 | 31 December<br>2022 |
|---------------------|---------------------|---------------------|
| Up to 3 months      | -                   | -                   |
| From 3 to 12 months | 58,406              | -                   |
| From 1 to 3 years   | 154,187             | 116,872             |
| Over 3 years        | 968,047             | 1,056,215           |
| <b>Total</b>        | <b>1,180,640</b>    | <b>1,173,087</b>    |
| Impairment          | (219)               | (225)               |
| <b>TOTAL</b>        | <b>1,180,421</b>    | <b>1,172,862</b>    |

## 13. OTHER ASSETS

| In thousands of KM   | 31 December<br>2023 | 31 December<br>2022 |
|--|---------------------|---------------------|
| Receivables from resident banks                              | 2,526               | 2,495               |
| Giro accounts ( <a href="#">Note 34</a> )                    | 642                 | 1,435               |
| Receivables from employee based on domestic currency deficit | 601                 | 601                 |
| Other miscellaneous financial assets                         | 377                 | 358                 |
| <b>Total</b>   | <b>4,146</b>        | <b>4,889</b>        |
| Impairment   | (607)               | (607)               |
| <b>Total other financial assets</b>                          | <b>3,539</b>        | <b>4,282</b>        |
| Prepaid expenses for banknotes and coins production          | 11,062              | 12,995              |
| Prepaid expenses for business administration                 | 1,367               | 587                 |
| Numismatic collections                                       | 1,198               | 1,190               |
| Other miscellaneous nonfinancial assets                      | 218                 | 226                 |
| <b>Total other nonfinancial assets</b>                       | <b>13,845</b>       | <b>14,998</b>       |
| <b>TOTAL</b>   | <b>17,384</b>       | <b>19,280</b>       |

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

#### 14. PROPERTY AND EQUIPMENT

| In thousands of KM              | Land<br>and<br>buildings | Equipment<br>and<br>furniture | Vehicles     | Other        | Assets under<br>construction | Property and<br>equipment<br>total |
|---------------------------------|--------------------------|-------------------------------|--------------|--------------|------------------------------|------------------------------------|
| <b>Cost</b>                     |                          |                               |              |              |                              |                                    |
| <b>As at 1 January 2022</b>     | <b>49,674</b>            | <b>27,741</b>                 | <b>1,412</b> | <b>1,078</b> | <b>42</b>                    | <b>79,947</b>                      |
| Additions                       | -                        | -                             | -            | -            | 838                          | 838                                |
| Transferred to use              | -                        | 750                           | -            | -            | (750)                        | -                                  |
| Write offs and disposals        | -                        | (2,022)                       | (10)         | (19)         | -                            | (2,051)                            |
| <b>As at 31 December 2022</b>   | <b>49,674</b>            | <b>26,469</b>                 | <b>1,402</b> | <b>1,059</b> | <b>130</b>                   | <b>78,734</b>                      |
| Additions                       | -                        | -                             | -            | -            | 1,184                        | 1,184                              |
| Transferred to use              | -                        | 1,144                         | -            | 21           | (1,165)                      | -                                  |
| Write offs and disposals        | -                        | (769)                         | (178)        | (8)          | -                            | (955)                              |
| <b>As at 31 December 2023</b>   | <b>49,674</b>            | <b>26,844</b>                 | <b>1,224</b> | <b>1,072</b> | <b>149</b>                   | <b>78,963</b>                      |
| <b>Accumulated depreciation</b> |                          |                               |              |              |                              |                                    |
| <b>As at 1 January 2022</b>     | <b>7,133</b>             | <b>20,463</b>                 | <b>1,275</b> | <b>899</b>   | -                            | <b>29,770</b>                      |
| Charge for the year             | 580                      | 1,787                         | 73           | 37           | -                            | 2,477                              |
| Write offs and disposals        | -                        | (2,019)                       | (10)         | (19)         | -                            | (2,048)                            |
| <b>As at 31 December 2022</b>   | <b>7,713</b>             | <b>20,231</b>                 | <b>1,338</b> | <b>917</b>   | -                            | <b>30,199</b>                      |
| Charge for the year             | 580                      | 1,736                         | 61           | 27           | -                            | 2,404                              |
| Write offs and disposals        | -                        | (764)                         | (178)        | (8)          | -                            | (950)                              |
| <b>As at 31 December 2023</b>   | <b>8,293</b>             | <b>21,203</b>                 | <b>1,221</b> | <b>936</b>   | -                            | <b>31,653</b>                      |
| <b>Net carrying amount</b>      |                          |                               |              |              |                              |                                    |
| <b>As at 1 January 2023</b>     | <b>41,961</b>            | <b>6,238</b>                  | <b>64</b>    | <b>142</b>   | <b>130</b>                   | <b>48,535</b>                      |
| <b>As at 31 December 2023</b>   | <b>41,381</b>            | <b>5,641</b>                  | <b>3</b>     | <b>136</b>   | <b>149</b>                   | <b>47,310</b>                      |

The land for the construction of the office building for the Main Unit Sarajevo was purchased on the basis of a contract with the Municipality Centar. During the realisation of the contract, the Municipality Centar issued a Decision rejecting the issuance of an urban planning permission for the office building construction (07-19-421/20 from 17 June 2022), which, after the second instance procedure, became final by the Decision of the relevant cantonal Ministry (05-19-1081/22 from 22 November 2022). In addition, with regard to the land in matter, the Central Bank conducts the court proceedings to annul the Decision of the relevant cantonal Ministry as a second instance authority (Lawsuit from 5 January 2023) and court proceedings against the Municipality Centar for the cancellation of the contract and damage compensation (Lawsuit from 20 October 2023).

The Central Bank is the legal owner of the land and has no outstanding contractual obligations towards the seller of the land.

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

## 15. INTANGIBLE ASSETS

| In thousands of KM              | Software and<br>other intangible<br>assets | Intangible assets<br>under construction | Intangible<br>assets<br>total |
|---------------------------------|--|---|-------------------------------|
| <b>Cost</b>                     |  |   |                               |
| <b>As at 1 January 2022</b>     | <b>16,136</b>                              | -                                       | <b>16,136</b>                 |
| Additions                       | -  | 287                                     | 287                           |
| Transferred to use              | 287  | (287)                                   | -                             |
| Write offs and disposals        | (470)                                      | -                                       | (470)                         |
| <b>As at 31 December 2022</b>   | <b>15,953</b>                              | -                                       | <b>15,953</b>                 |
| Additions                       | -  | 410                                     | 410                           |
| Transferred to use              | 410  | (410)                                   | -                             |
| Write offs and disposals        | (310)                                      | -                                       | (310)                         |
| <b>As at 31 December 2023</b>   | <b>16,053</b>                              | -                                       | <b>16,053</b>                 |
| <b>Accumulated amortisation</b> |  |   |                               |
| <b>As at 1 January 2022</b>     | <b>15,153</b>                              | -                                       | <b>15,153</b>                 |
| Charge for the year             | 426  | -                                       | 426                           |
| Write offs and disposals        | (470)                                      | -                                       | (470)                         |
| <b>As at 31 December 2022</b>   | <b>15,109</b>                              | -                                       | <b>15,109</b>                 |
| Charge for the year             | 390  | -                                       | 390                           |
| Write offs and disposals        | (310)                                      | -                                       | (310)                         |
| <b>As at 31 December 2023</b>   | <b>15,189</b>                              | -                                       | <b>15,189</b>                 |
| <b>Net carrying amount</b>      |  |   |                               |
| <b>As at 1 January 2023</b>     | <b>844</b>                                 | -                                       | <b>844</b>                    |
| <b>As at 31 December 2023</b>   | <b>864</b>                                 | -                                       | <b>864</b>                    |

## 16. OTHER INVESTMENTS

The structure of other investments is as follows:

| In thousands of KM         | 31 December<br>2023 | 31 December<br>2022 |
|----------------------------|---------------------|---------------------|
| <i>Equity instruments:</i> |                     |                     |
| Shares in BIS              | 27,803              | 27,803              |
| Shares in SWIFT            | 10                  | 10                  |
| <b>TOTAL</b>               | <b>27,813</b>       | <b>27,813</b>       |

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

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

BIS and SWIFT shares are not tradable.

## 16. OTHER INVESTMENTS (CONTINUED)

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

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

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

## 17. BANKNOTES AND COINS IN CIRCULATION

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

| In thousands of KM  | 2023             | 2022             |
|---|------------------|------------------|
| <b>As at 1 January</b>  | <b>7,436,097</b> | <b>6,923,818</b> |
| Net increase in value of banknotes and coins in circulation during the year | 129,011          | 512,279          |
| <b>As at 31 December</b>  | <b>7,565,108</b> | <b>7,436,097</b> |

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

|                        | 31 December 2023 |             |                          | 31 December 2022 |                          |  |
|------------------------|------------------|-------------|--------------------------|------------------|--------------------------|--|
|                        | Denomination     | Pieces      | Value in thousands of KM | Pieces           | Value in thousands of KM |  |
| Coins                  | 0.05             | 101,836,346 | 5,092                    | 94,835,088       | 4,742                    |  |
| Coins                  | 0.10             | 144,279,167 | 14,428                   | 134,369,633      | 13,437                   |  |
| Coins                  | 0.20             | 106,401,362 | 21,280                   | 98,502,878       | 19,701                   |  |
| Coins                  | 0.50             | 49,610,221  | 24,805                   | 46,202,553       | 23,101                   |  |
| Coins                  | 1                | 74,067,545  | 74,068                   | 69,045,388       | 69,045                   |  |
| Coins                  | 2                | 21,957,007  | 43,914                   | 19,744,315       | 39,489                   |  |
| Coins                  | 5                | 16,301,766  | 81,509                   | 14,846,895       | 74,234                   |  |
| <b>Total coins</b>     |                  |             | <b>265,096</b>           |                  | <b>243,749</b>           |  |
| Banknotes              | 10               | 15,705,792  | 157.058                  | 14,985,812       | 149,858                  |  |
| Banknotes              | 20               | 12,168,451  | 243.369                  | 11,453,994       | 229,080                  |  |
| Banknotes              | 50               | 27,815,563  | 1.390.778                | 27,570,944       | 1,378,547                |  |
| Banknotes              | 100              | 45,958,334  | 4.595.833                | 45,234,277       | 4,523,428                |  |
| Banknotes              | 200              | 4,564,870   | 912.974                  | 4,557,175        | 911,435                  |  |
| <b>Total banknotes</b> |                  |             | <b>7,300,012</b>         |                  | <b>7,192,348</b>         |  |
| <b>TOTAL</b>           |                  |             | <b>7,565,108</b>         |                  | <b>7,436,097</b>         |  |

## 18. DEPOSITS FROM BANKS

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

| In thousands of KM  | 31 December<br>2023 | 31 December<br>2022 |
|---|---------------------|---------------------|
| Deposits from resident banks                              | 7,082,560           | 7,215,919           |
| Reserve accounts of the Central Bank organizational units | 642                 | 1,435               |
| Special deposit of resident banks – blocked funds         | 33                  | 33                  |
| <b>TOTAL</b>  | <b>7,083,235</b>    | <b>7,217,387</b>    |

Deposits from resident banks are placed in accordance with required reserve policy of the Central Bank, to meet obligations for settling payment transactions between resident banks mutually as well as for transactions with the Central Bank. As at 31 December 2023 the total amount of KM 7,082,560 thousand represents deposits of 22 resident banks (31 December 2022: KM 7,215,919 thousand represented deposits of 22 banks).

Deposits from resident banks, on the basis of required reserve policy, include accrued remuneration in the amount KM 1,181 thousand as at 31 December 2023 (31 December 2022: Included negative accrued remuneration in the amount KM 894 thousand).

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

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

Amounts exceeding the required reserve are deposits which resident banks hold on their reserve accounts. More information on applied remuneration rates on the basis of required reserve instrument in the reporting periods is provided in [Note 22](#).

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

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

| In thousands of KM  | 31 December<br>2023 | 31 December<br>2022 |
|---|---------------------|---------------------|
| Budgetary deposits from BH institutions                           | 633,891             | 560,390             |
| Deposits from other local governments and government institutions | 85,101              | 125,108             |
| Deposit account under the IMF transactions                        | 17,019              | 26                  |
| Deposits from other public institutions                           | 16,887              | 272,721             |
| <b>TOTAL</b>  | <b>752,898</b>      | <b>958,245</b>      |



## 20. PROVISIONS

Provisions are related to provisions for employees' severance payments and jubilee awards and provisions for potential liabilities based on litigations.

Changes in provisions are presented in the following tables:

|   | <b>2023</b>        |                           |                       |              |
|---|--------------------|---------------------------|-----------------------|--------------|
| <b>In thousands of KM</b>                 | <b>Litigations</b> | <b>Severance payments</b> | <b>Jubilee awards</b> | <b>Total</b> |
| <b>As at 1 January</b>                    | -                  | <b>860</b>                | <b>37</b>             | <b>897</b>   |
| Released provisions                       | -                  | (15)                      | -                     | (15)         |
| Increase in provisions                    | 300                | 689                       | 281                   | 1,270        |
| <b>Total recognised in profit or loss</b> | <b>300</b>         | <b>674</b>                | <b>281</b>            | <b>1,255</b> |
| Amounts paid                              | -                  | (115)                     | (12)                  | (127)        |
| <b>As at 31 December</b>                  | <b>300</b>         | <b>1,419</b>              | <b>306</b>            | <b>2,025</b> |

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

### *Litigations*

The Central Bank is a defendant in few legal proceedings arising from its operations. The Central Bank has formed a provision for litigations in which it appears as the defendant in the amount of KM 300 thousand on a basis of uncertainty of the final outcome of litigations in 2023 (2022: The Central Bank did not have provisions for litigations).

### *Commitments*

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

## 21. OTHER LIABILITIES

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

| In thousands of KM   | 31 December<br>2023 | 31 December<br>2022 |
|--|---------------------|---------------------|
| Liabilities for allocation a part of the profit to the BH budget ( <a href="#">Note 32</a> ) | 64,319              | -                   |
| IMF Accounts No. 1 and 2 ( <a href="#">Note 37</a> )   | 2,203               | 2,268               |
| Suppliers  | 1,527               | 1,322               |
| The World Bank deposits  | 251                 | 315                 |
| Accrued, but non-invoiced liabilities  | 92                  | 101                 |
| Other financial liabilities  | 31                  | 17                  |
| <b>Total other financial liabilities</b>   | <b>68,423</b>       | <b>4,023</b>        |
| Non-financial liabilities on various bases   | 215                 | 229                 |
| Collected and deferred income  | 31                  | 49                  |
| <b>Total other nonfinancial liabilities</b>  | <b>246</b>          | <b>278</b>          |
| <b>TOTAL</b>   | <b>68,669</b>       | <b>4,301</b>        |

## 22. NET INTEREST INCOME

| In thousands of KM  | For the year ended<br>31 December |                 |
|---|-----------------------------------|-----------------|
|   | 2023                              | 2022            |
| <b>Interest income arising from:</b>  |                                   |                 |
| Deposits with foreign banks ( <a href="#">Note 8</a> )  | 249,220                           | 23,031          |
| Debt instruments at fair value through other comprehensive income ( <a href="#">Note 10</a> )   | 69,366                            | 21,900          |
| Debt instruments at amortised cost ( <a href="#">Note 12</a> )  | 11,912                            | 8,669           |
| Special Drawing Rights with the IMF   | 189                               | 27              |
| Effects of negative deposit interest rates on deposits from resident banks  | -                                 | 25,205          |
| <b>Total</b>  | <b>330,687</b>                    | <b>78,832</b>   |
| <b>Interest expense arising from:</b>   |                                   |                 |
| Deposits from resident banks  | (9,842)                           | -               |
| Effects of negative interest rates from debt instruments at fair value through other comprehensive income ( <a href="#">Note 10</a> ) | (4,427)                           | (26,880)        |
| Effects of negative interest rates from deposits with foreign banks   | -                                 | (12,146)        |
| <b>Total</b>  | <b>(14,269)</b>                   | <b>(39,026)</b> |
| <b>Net interest income</b>  | <b>316,418</b>                    | <b>39,806</b>   |

## 22. NET INTEREST INCOME (CONTINUED)

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

| In thousands of KM  | For the year ended<br>31 December |                |
|---|-----------------------------------|----------------|
|   | 2023                              | 2022           |
| <b>1. Financial assets at amortised cost</b>                                |                                   |                |
| <i>Interest income arising from:</i>  |                                   |                |
| Deposits with foreign banks   | 249,220                           | 23,031         |
| Debt instruments at amortised cost  | 11,912                            | 8,669          |
| Special Drawing Rights with the IMF   | 189                               | 27             |
|   | 261,321                           | 31,727         |
| <i>Interest expense arising from:</i>                                       |                                   |                |
| Effects of negative interest rates from deposits with foreign banks         | -                                 | (12,146)       |
|   | -                                 | (12,146)       |
| <b>Total</b>  | <b>261,321</b>                    | <b>19,581</b>  |
| <b>2. Debt instruments at fair value through other comprehensive income</b> |                                   |                |
| Interest income   | 69,366                            | 21,900         |
| Effects of negative interest rates  | (4,427)                           | (26,880)       |
| <b>Total</b>  | <b>64,939</b>                     | <b>(4,980)</b> |
| <b>3. Financial liabilities at amortised cost</b>                           |                                   |                |
| Interest expense arising from deposits from resident banks                  | (9,842)                           | -              |
| Effects of negative deposit interest rates on deposits from resident banks  | -                                 | 25,205         |
| <b>Total</b>  | <b>(9,842)</b>                    | <b>25,205</b>  |
| <b>Net interest income</b>  | <b>316,418</b>                    | <b>39,806</b>  |

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

In the period 01/01 - 31/12/2023, the Central Bank calculates and pays the remuneration to resident banks applying remuneration rates on the required reserves amounts generated from domestic currency base, i.e., on required reserve amounts generated from the foreign currency base and on the domestic currency with a currency clause base. The zero-remuneration rate is calculated by the Central Bank on the amounts exceeding required reserves.

In the period 01/01 - 31/12/2022, the Central Bank did not calculate the remuneration on the required reserves amounts generated from domestic currency base. The remuneration was calculated and charged on the required reserves amounts generated from the foreign currency base, the domestic currency with a currency clause base and on the amounts exceeding the required reserves.

## 22. NET INTEREST INCOME (CONTINUED)

In the period 01/01 -31/08/2022, the remuneration rates applied by the Central Bank were linked to the ECB deposit facility rate, additionally reduced by 10 basis points for the required reserves amounts generated from the foreign currency base and the domestic currency with a currency clause base and by 25 basis points for the amounts exceeding the required reserves. The ECB negative deposit facility rate was 0.50% until 26 July 2022, and from 27 July 2022 was 0.00%.

In the period 01/09 -31/12/2022, the Central Bank determined negative remuneration rates in fixed amounts without linking them to the ECB deposit facility rate changes.

The following table presents applied Central Bank's remuneration rates during reporting periods:

| <b>Base for calculation of remuneration</b>        | <b>The Central Bank remuneration rate<br/>for the period</b> |                      |
|--|--|----------------------|
| <b>2023</b>  |  |                      |
| <b>Required reserves amounts</b>                   | <b>01/01 - 30/6</b>  | <b>01/07 - 31/12</b> |
| <i>Domestic currency base</i>                      | 0.25%  | 0.50%                |
| <i>Foreign currency base</i>                       | 0.10%  | 0.30%                |
| <i>Domestic currency with currency clause base</i> | 0.10%  | 0.30%                |
| <b>Amounts exceeding the required reserves</b>     | 0.00%  | 0.00%                |
| <b>2022</b>  |  |                      |
| <b>Required reserves amounts</b>                   | <b>01/01 - 31/7</b>  | <b>01/08 - 31/12</b> |
| <i>Domestic currency base</i>                      | 0.00%  | 0.00%                |
| <i>Foreign currency base</i>                       | (0.60%)  | (0.10%)              |
| <i>Domestic currency with currency clause base</i> | (0.60%)  | (0.10%)              |
| <b>Amounts exceeding the required reserves</b>     | (0.75%)  | (0.25%)              |

Interest expenses arising from deposits from resident banks include expenses arising from the required reserves in the amount of KM 9,842 thousand in 2023 (2022: The effects of negative deposit interest rates on deposits from resident banks included income arising from the amounts exceeding the required reserves in the amount of KM 19,985 thousand and KM 5,220 thousand arising from the amounts of required reserves).

More information regarding the required reserves policy of the Central Bank is disclosed in [Note 18](#).

**22. NET INTEREST INCOME (CONTINUED)**

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

| <b>In thousands of KM</b>                         | <b>For the year ended<br/>31 December</b> |                 |
|---|---|-----------------|
|   | <b>2023</b>                               | <b>2022</b>     |
| <b>Interest income</b>                            |   |                 |
| Term deposits                                     | 214,020                                   | 19,585          |
| Demand deposits                                   | 35,200                                    | 3,446           |
| <b>Total</b>                                      | <b>249,220</b>                            | <b>23,031</b>   |
| <br><b>The effects of negative interest rates</b> |   |                 |
| Term deposits                                     | -   | (10,147)        |
| Demand deposits                                   | -   | (1,999)         |
| <b>Total</b>                                      | <b>-</b>                                  | <b>(12,146)</b> |
| <br><b>Net interest income</b>                    | <b>249,220</b>                            | <b>10,885</b>   |

**23. NET FEE AND COMMISSION INCOME**

| <b>In thousands of KM</b>                                 | <b>For the year ended<br/>31 December</b> |               |
|---|---|---------------|
|   | <b>2023</b>                               | <b>2022</b>   |
| <b>Fee and commission income arising from:</b>            |   |               |
| Services for resident banks                               | 20,465                                    | 20,969        |
| Services for the Government and other non-banking clients | 1,480                                     | 1,735         |
| <b>Total</b>  | <b>21,945</b>                             | <b>22,704</b> |
| <br><b>Fee and commission expenses arising from:</b>      |   |               |
| Custodian and other expenses for debt instruments         | (499)                                     | (749)         |
| Transactions with foreign banks                           | (32)                                      | (36)          |
| Other fee and commission expenses                         | (3)                                       | (6)           |
| <b>Total</b>  | <b>(534)</b>                              | <b>(791)</b>  |
| <br><b>Net fee and commission income</b>                  | <b>21,411</b>                             | <b>21,913</b> |

**23. NET FEE AND COMMISSION INCOME (CONTINUED)**

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

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

|                           | <b>For the year ended<br/>31 December</b> |                 |
|---------------------------|---|-----------------|
| <b>In thousands of KM</b> | <b>2023</b>                               | <b>2022</b>     |
| Realised gains            | -   | 20,145          |
| Realised losses           | (22,487)                                  | (83,615)        |
| <b>TOTAL</b>              | <b>(22,487)</b>                           | <b>(63,470)</b> |

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

**25. NET REALISED GAINS FROM SALE OF MONETARY GOLD**

Gains arising from fair value changes of monetary gold recognised in other comprehensive income, within fair value reserves for monetary gold, are recognised as realized gains in profit or loss account at the sale date. In 2023, the Central Bank has not carried out monetary gold sales (2022: Net realised gains from the sale of 48,000 ounces of monetary gold amounted to KM 60,014 thousand).

**26. NET FOREIGN EXCHANGE (LOSSES)**

|  | <b>For the year ended<br/>31 December</b> |             |
|--|---|-------------|
| <b>In thousands of KM</b>                | <b>2023</b>                               | <b>2022</b> |
| Net unrealised foreign exchange (losses) | (288)                                     | (150)       |
| Net realised foreign exchange gains      | 86  | 108         |
| <b>TOTAL</b>                             | <b>(202)</b>                              | <b>(42)</b> |

**27. IMPAIRMENT ON FINANCIAL ASSETS, NET INCREASES / DECREASES**

|  | <b>For the year ended<br/>31 December</b> |              |
|--|---|--------------|
| <b>In thousands of KM</b>  | <b>2023</b>                               | <b>2022</b>  |
| Net releases of / (increases) in impairment for deposits with foreign banks  | 193                                       | (937)        |
| Net (increases) in / releases of impairment for Special Drawing Rights with the IMF  | -   | -            |
| Net (increases) in / releases of provisions for expected credit losses for debt instruments at fair value through other comprehensive income | (99)                                      | 239          |
| Net releases of / (increases) in provisions for impairment for debt instruments at amortised cost  | 6   | (225)        |
| Net (increases) in impairment for other financial assets   | -   | (1)          |
| <b>TOTAL</b>   | <b>100</b>                                | <b>(924)</b> |

More information on the gross amounts of gains and losses arising from increases and releases from expected credit losses in the reporting periods is disclosed in [Note 6.1.1](#).

**27. OTHER INCOME**

|   | <b>For the year ended<br/>31 December</b> |             |
|---|---|-------------|
| <b>In thousands of KM</b>                                   | <b>2023</b>                               | <b>2022</b> |
| Dividend income from BIS shares ( <a href="#">Note 16</a> ) | 721                                       | 721         |
| Net effects of numismatic collections value adjustments     | 29  | 61          |
| Other income  | 43  | 68          |
| <b>TOTAL</b>  | <b>793</b>                                | <b>850</b>  |

During 2023, the Central Bank received a dividend from BIS shares amounting to KM 721 thousand (2022: KM 721 thousand).

## 28. PERSONNEL EXPENSES

|   | <b>For the year ended<br/>31 December</b> |               |
|---|---|---------------|
| <b>In thousands of KM</b>   | <b>2023</b>                               | <b>2022</b>   |
| Salaries  | 12,530                                    | 10,499        |
| Contributions and other fees on salaries  | 6,972                                     | 5,874         |
| Other employee benefits   | 2,086                                     | 2,025         |
| Contributions and other fees on other employee benefits   | 531                                       | 551           |
| <b>Total</b>  | <b>22,119</b>                             | <b>18,949</b> |
| Net increase in / (releases) of provisions for employees' severance payments and jubilee awards ( <a href="#">Note 20</a> ) | 955                                       | (327)         |
| <b>TOTAL</b>  | <b>23,074</b>                             | <b>18,622</b> |

Personnel expenses include KM 4,249 thousand (2022: KM 3,637 thousand) of defined pension contributions paid to the public pension funds in BH. Contributions are calculated as percentage of the gross salary.

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

The average number of employees amounts to 353 for 2023 (2022: 352).

The discount rate of 4% is used for calculation of the severance payments and the jubilee awards (2022: 4%)

## 29. ADMINISTRATIVE AND OTHER OPERATING EXPENSES

|   | <b>For the year ended<br/>31 December</b> |              |
|---|---|--------------|
| <b>In thousands of KM</b>                   | <b>2023</b>                               | <b>2022</b>  |
| Payment systems maintenance expenses        | 1,794                                     | 1,693        |
| IT infrastructure expenses                  | 1,049                                     | 894          |
| Overhead expenses                           | 935                                       | 913          |
| Access to official services expenses        | 794                                       | 751          |
| Fixed assets maintenance expenses           | 608                                       | 520          |
| Other administrative and operating expenses | 2,320                                     | 2,220        |
| <b>TOTAL</b>                                | <b>7,500</b>                              | <b>6,991</b> |

## 30. COSTS OF PRODUCTION OF BANKNOTES AND COINS

|   | <b>For the year ended<br/>31 December</b> |              |
|---|---|--------------|
| <b>In thousands of KM</b>                   | <b>2023</b>                               | <b>2022</b>  |
| Costs of production and design of banknotes | 2,454                                     | 1,604        |
| Costs of production and design of coins     | 1,950                                     | 2,128        |
| <b>TOTAL</b>                                | <b>4,404</b>                              | <b>3,732</b> |



### 31. ALLOCATION OF THE ANNUAL NET PROFIT

The allocation of the annual 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 annual 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 net profit allocation in 2023 amounts to 3.89% (2022: 3.67%). According to the Decision of the Governing Board and in accordance with the Law on the Central Bank, the amount of KM 171,063 thousand from achieved net profit for 2023 is allocated to general reserves (retained earnings), firstly fulfilling the legal criteria that the amount of initial capital and general reserves (retained earnings) equals to the amount of 5.00% of the total amount of monetary liabilities. Out of the remaining net profit for 2023 in the amount KM 107,198 thousand, 60% is allocated to the BH budget in the amount of KM 64,319 thousand, and 40% is allocated to general reserves (retained earnings) in the amount of KM 42,879 thousand (2022: The total net profit for 2022 amounting to KM 25,899 thousand was allocated to general reserves, i.e., retained earnings of the Central Bank).

#### 2023

##### Before profit allocation

|  |                      |
|--|----------------------|
|  | (In thousands of KM) |
| <b>Monetary liabilities</b>  | <b>15,401,241</b>    |
| Initial capital and general reserves (retained earnings)                                       | 598,999              |
| <b>Ratio - initial capital and general reserves (retained earnings) / monetary liabilities</b> | <b>3.89%</b>         |

##### Profit allocation

|  |                      |
|--|----------------------|
|  | (In thousands of KM) |
| <b>Net profit before allocation</b>  | <b>278,261</b>       |
| First allocation of profit to general reserves (retained earnings)                             | 171,063              |
| Initial capital and general reserves (retained earnings) after first allocation                | 770,062              |
| <b>Ratio - initial capital and general reserves (retained earnings) / monetary liabilities</b> | <b>5.00%</b>         |

|  |                      |
|--|----------------------|
|  | (In thousands of KM) |
| <b>Net profit after first allocation</b>                     | <b>107,198</b>       |
| Allocation of profit to the budget of BH                     | 64,319               |
| Allocation of profit to general reserves (retained earnings) | 42,879               |

|  |                      |
|--|----------------------|
|  | (In thousands of KM) |
| <b>Total net profit allocation for 2023</b>                  | <b>278,261</b>       |
| Allocation of profit to the BH budget                        | 64,319               |
| Allocation of profit to general reserves (retained earnings) | 213,942              |
| <b>Total</b>   | <b>278,261</b>       |

##### After profit allocation

|  |                      |
|--|----------------------|
|  | (In thousands of KM) |
| <b>Monetary liabilities</b>  | <b>15,401,241</b>    |
| Initial capital and general reserves (retained earnings)                                       | 812,941              |
| <b>Ratio - initial capital and general reserves (retained earnings) / monetary liabilities</b> | <b>5.28%</b>         |

### 32. ALLOCATION OF THE ANNUAL NET PROFIT (CONTINUED)

2022

#### Before profit allocation

(In thousands of KM)

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

#### Profit allocation

(In thousands of KM)

|  |               |
|--|---------------|
| <b>Net profit before allocation</b>                          | <b>25,899</b> |
| Allocation of profit to general reserves (retained earnings) | 25,899        |

#### After profit allocation

(In thousands of KM)

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

### 33. EQUITY

The structure of equity is presented in the following table:

| In thousands of KM                                  | 31 December<br>2023 | 31 December<br>2022 |
|---|---------------------|---------------------|
| <b>Initial capital</b>                              | <b>25,000</b>       | <b>25,000</b>       |
| Fair value reserves for debt and equity instruments | (6,471)             | (143,005)           |
| Fair value reserves for monetary gold               | 73,530              | 58,111              |
| Other reserves                                      | 31,300              | 31,300              |
| General reserves (Retained earnings)                | 787,941             | 573,999             |
| <b>Total reserves</b>                               | <b>886,300</b>      | <b>520,405</b>      |
| <b>TOTAL</b>  | <b>911,300</b>      | <b>545,405</b>      |

#### *Initial capital*

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

#### *Fair value reserves*

Fair value reserves relate to:

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

### 33. EQUITY (CONTINUED)

#### *Other reserves*

Other reserves relate to:

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

#### *General reserves (Retained earnings)*

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

As at 31 December 2023, the equity of the Central Bank has increased compared to its balance as at 31 December 2022. The increase of the equity was primary generated by the significant amount of net profit and significant decrease of the negative balances of the fair value reserves of debt instruments. As disclosed in [Note 3.13](#), activities undertaken with the aim to adjusting to conditions in the environment in which the Central Bank invests foreign currency reserves, significantly improved Central Bank financial performances for 2023.

### 34. CASH AND CASH EQUIVALENTS

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

| <b>In thousands of KM</b>  | <b>31 December<br/>2023</b> | <b>31 December<br/>2022</b> |
|--|-----------------------------|-----------------------------|
| Foreign currency deposits with maturity up to three months or less from the date of acquisition ( <a href="#">Note 8</a> ) | 4,744,565                   | 5,646,221                   |
| Foreign currency demand deposits ( <a href="#">Note 8</a> )  | 1,811,641                   | 1,628,560                   |
| Cash in foreign currencies ( <a href="#">Note 7</a> )  | 455,191                     | 572,020                     |
| Special Drawing Rights with the IMF ( <a href="#">Note 9</a> )   | 2,073                       | 149                         |
| Giro accounts ( <a href="#">Note 13</a> )  | 642                         | 1,435                       |
| <b>Total</b>   | <b>7,014,112</b>            | <b>7,848,385</b>            |
| Impairment   | (1,486)                     | (1,752)                     |
| <b>TOTAL</b>   | <b>7,012,626</b>            | <b>7,846,633</b>            |

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

| <b>In thousands of KM</b>   | <b>2023</b>  | <b>2022</b>  |
|---|--------------|--------------|
| <b>As at 1 January</b>  | <b>1,752</b> | <b>858</b>   |
| Foreign currency deposits with maturity up to three months or less from the date of acquisition | (287)        | 927          |
| Foreign currency demand deposits  | 21           | (33)         |
| Special Drawing Rights with the IMF   | -            | -            |
| <b>As at 31 December</b>  | <b>1,486</b> | <b>1,752</b> |

### 35. RELATED PARTY TRANSACTIONS

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

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

#### In thousands of KM

As at  
31 December 2023

|                          | BH Ministry of<br>Finance and<br>Treasury | BH Deposit<br>Insurance Agency | BH Indirect<br>Taxation<br>Authority | Total          |
|--------------------------|---|--------------------------------|--------------------------------------|----------------|
| <b>ASSETS</b>            |   |                                |                                      |                |
| Other assets             | 55  | -                              | 3                                    | 58             |
| <b>TOTAL</b>             | <b>55</b>                                 | <b>-</b>                       | <b>3</b>                             | <b>58</b>      |
| <b>LIABILITIES</b>       |   |                                |                                      |                |
| Deposits from depositors | 442,770                                   | 68                             | 244,938                              | 687,776        |
| Other liabilities        | -   | -                              | 94                                   | 94             |
| <b>TOTAL</b>             | <b>442,770</b>                            | <b>68</b>                      | <b>245,032</b>                       | <b>687,870</b> |

#### In thousands of KM

As at  
31 December 2022

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

**35. RELATED PARTY TRANSACTIONS (CONTINUED)**

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

**For the year ended  
31 December**

**In thousands of KM**

|                                     | 2023       | 2022       |
|-------------------------------------|------------|------------|
| <b>Fee and commission income</b>    |            |            |
| BH Ministry of Finance and Treasury | 111        | 129        |
| BH Indirect Taxation Authority      | 30         | 122        |
| BH Deposit Insurance Agency         | 13         | 54         |
| <b>TOTAL</b>                        | <b>154</b> | <b>305</b> |

By performing its functions of the banker, the depository and the fiscal agent prescribed by the Law on the Central Bank, the Central Bank also maintains certain bookkeeping and executes transactions for the State and BH institutions that are recorded off-balance. More information about these off-balance records is disclosed in [Notes 36](#) and [37](#).

**Remuneration of key management members**

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

The total remuneration of the members of the key management personnel in 2023 amounts to KM 1,165 thousand, out of which KM 727 thousand is related to salaries and other remuneration and KM 438 thousand to taxes and contributions (In 2022 out of total amount of KM 1,005 thousand, the amount of KM 631 thousand related to salaries and other remuneration and KM 374 thousand related to taxes and contributions).

**36. OFF-BALANCE SHEET DEPOSITS**

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

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

### 36. OFF-BALANCE SHEET DEPOSITS (CONTINUED)

Off-balance sheet deposits consist of:

| In thousands of KM   | 31 December<br>2023 | 31 December<br>2022 |
|--|---------------------|---------------------|
| Deposits of the Council of Ministers of BH for the budget of BH institutions | 304,440             | 197,946             |
| Deposits of the Council of Ministers of BH for the servicing of foreign debt | 10,294              | 9,367               |
| Other deposits of the Council of Ministers of BH                             | 298                 | 294                 |
| Deposits of the Council of Ministers of BH on the basis of succession        | 48                  | 47                  |
| <b>Total</b>   | <b>315,080</b>      | <b>207,654</b>      |
| Funds of the BH Deposit Insurance Agency                                     | 589                 | 20,985              |
| <b>Total</b>   | <b>589</b>          | <b>20,985</b>       |
| Deposit accounts of resident banks   | 21,035              | 18,537              |
| Deposits - Retirement allowance from Germany                                 | 237                 | 348                 |
| <b>Total</b>   | <b>21,272</b>       | <b>18,885</b>       |
| <b>TOTAL</b>   | <b>336,941</b>      | <b>247,524</b>      |

BH Ministry of Finance and Treasury is the institution that acts on behalf of the Council of Ministers of BH and state in deposit management and coordination as presented in the table. As at 31 December 2023 the total of these funds amount to KM 315,080 thousand (2022: KM 207,654 thousand).

#### Residents' investments related to securities

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

### 37. BH MEMBERSHIP WITH THE IMF

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

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

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

**37. BH MEMBERSHIP WITH THE IMF (CONTINUED)**

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

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

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

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

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

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

**In thousands of KM**

|   | <b>31 December<br/>2023</b> | <b>31 December<br/>2022</b> |
|---|-----------------------------|-----------------------------|
| Quota                                   | 631,516                     | 649,867                     |
| Special Drawing Rights with the IMF     | 2,073                       | 149                         |
| <b>TOTAL ASSETS</b>                     | <b>633,589</b>              | <b>650,016</b>              |
| IMF account No.1                        | 1,579                       | 1,625                       |
| IMF account No.2                        | 624                         | 643                         |
| Securities                              | 1,291,461                   | 1,543,253                   |
| SDR allocation                          | 988,395                     | 1,017,117                   |
| Accrued interest on SDR allocation      | 6,867                       | 4,669                       |
| Accounts of payable charges             | 5,710                       | 5,610                       |
| <b>TOTAL LIABILITIES</b>                | <b>2,294,637</b>            | <b>2,572,917</b>            |
| <br><b>BH NET POSITION WITH THE IMF</b> | <br><b>1,661,048</b>        | <br><b>1,922,901</b>        |

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

### 38. DOMESTIC PAYMENT AND SETTLEMENT SYSTEMS

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

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

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

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

#### **Credit risk**

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

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

#### **Operational risk**

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

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

The Central Bank has defined the following Contingency Settlement Procedures:

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



### 38. DOMESTIC PAYMENT AND SETTLEMENT SYSTEMS (CONTUNUED)

#### Oversight and development of payment systems

Applying the principles and responsibilities defined in the "Principles of Financial Markets Infrastructure" adopted by the BIS Committee on Payments and Settlements systems and the International Organization of Securities Commissions (IOSCO), the Central Bank performs permanent monitoring and periodical assessment of the functioning of payment systems in relation to the adopted principles. Evaluation compliance activities and system monitoring promote security and efficiency of payment systems and undisturbed performance of interbank payment operations in BH providing directly support to the maintenance of financial stability in BH by the Central Bank.

Also, through development function, the Central Bank actively participates in preparation and implementation phases related to innovations in payment systems and analyses their impact on BH economy and the impact on public policy objectives of secure and efficient payment systems. The development of domestic instant payment system, with the system architecture that enables full interoperability with TIPS payment system in EU as well as the modernisation of the existing systems, and participation in BH preparation activities for SEPA access are key activities of the Central Bank in the payment infrastructures field.

### 39. EVENTS AFTER THE REPORTING PERIOD

The BH Presidency has made decisions on the dismissal and the appointment of the Central Bank's Governing Board members on 18 December 2023, with an effective date on 3 January 2024.

Ending with 3 January 2024, the BH Presidency dismissed following Central Bank's Governing Board members:

#### The Governing Board

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

Starting from 3 January 2024, the BH Presidency appointed Central Bank Governing Board members, for a six-year mandate period and the Central Bank's Governor is elected at the constitutive session on the same day by the members, in accordance with the Law on the Central Bank. From 3 January 2024, the members of the Central Bank's Governing Board are:

#### The Governing Board

|                           |                         |
|---------------------------|-------------------------|
| Jasmina Selimović Ph.D.   | Chairwoman and Governor |
| Radomir Božić Ph.D.       | Member                  |
| Mirza Kršo Ph.D.          | Member                  |
| Danijela Martinović Ph.D. | Member                  |
| Darko Tomaš Ph.D.         | Member                  |

From 1 January 2024 the Central Bank started to apply the new required reserve framework. The new required reserve framework prescribes the obligation for resident banks to allocate and maintain required reserve in KM and EUR currency, by holding them on KM and EUR reserve accounts. Required reserve is calculated as a KM required reserve on domestic currency base and EUR required reserve on foreign currency base by applying unique 10% rate on all basis. Maintaining EUR required reserve is performed by allocating 5% of the calculated EUR required reserve amount on EUR reserve account, while 95% of the calculated EUR required reserve amount is allocated and maintained in KM equivalent on KM reserve account.

The Central Bank calculates and pays remuneration to resident banks at the remuneration rate of 0.50% on the KM required reserves amount, i.e., at the rate of 0.30% on the required reserves amounts in EUR. The zero-remuneration rate is calculated by the Central Bank on the resident banks' amounts exceeding required reserves.

Except from the above mentioned, no adjusting or non-adjusting events have occurred between 31 December 2023 and the date of authorization of these financial statements.